

THE MORTGAGE PAYOFF HOMESTEAD EXEMPTION

*A Policy Framework to Eliminate Real Estate Taxes on Primary Residences
in Missouri While Protecting Schools and Local Services*

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Introduction

Homeownership has long been understood as the foundation of financial stability and personal independence in Missouri. For generations, citizens accepted the burden of a thirty year mortgage with the expectation that, once paid in full, the home would finally and completely belong to them. Yet under Missouri's current tax structure, the completion of a mortgage does not end the financial obligation attached to the home. Instead, real estate taxes continue indefinitely, creating a system in which ownership remains conditional and subject to permanent taxation.

This paper proposes the creation of a Mortgage Payoff Homestead Exemption, a reform that would eliminate real estate taxes on a Missouri citizen's primary residence once the mortgage is paid in full and maintain that exemption until the property is sold. This exemption would apply exclusively to natural persons who are Missouri citizens and would not extend to corporations, commercial entities, or investment properties. By pairing this exemption with administrative reform and the reallocation of existing education funding, Missouri can relieve homeowners of perpetual tax liability while maintaining stable and adequate funding for local school districts.

The Structural Problem With Permanent Real Estate Taxation

Missouri's reliance on real estate taxation as a primary revenue source for local services has created a system that places the greatest burden on those who have the least flexibility to absorb rising costs — long term homeowners and retirees. Real estate taxes are based on assessed value rather than income, which means tax liability can increase even when a homeowner's financial capacity does not. This disconnect has created growing instability, particularly among senior citizens living on fixed incomes, many of whom face the prospect of being forced out of homes they have already paid off.

A system that taxes a family indefinitely on a home they have already paid for does not protect ownership. It perpetuates dependency. Missouri can do better.

At the same time, Missouri's overall state budget has expanded significantly over the past decade, including major increases in education funding. Despite this growth, local districts continue to rely heavily on real estate tax revenue, and homeowners continue to face rising tax bills. This indicates that the problem is not simply a lack of funding, but the way funding is structured and distributed. Administrative overhead and layered compliance systems absorb substantial portions of education funding before those dollars reach classrooms.

As a result, Missouri citizens are taxed indefinitely on their homes while the state's education bureaucracy continues to expand. This imbalance undermines both taxpayer stability and public confidence in government.

Policy Proposal: The Mortgage Payoff Homestead Exemption

The Mortgage Payoff Homestead Exemption establishes a clear and enforceable condition under which real estate taxes on a primary residence would be eliminated. Once a Missouri citizen fully satisfies the mortgage secured by their primary residence, and that satisfaction is properly recorded, the property would become exempt from real estate taxation for as long as it remains their primary residence.

This exemption would apply only to natural persons who are citizens of Missouri and occupy the property as their primary residence. It would not apply to corporations, partnerships, limited liability companies, trusts established for investment purposes, or any commercial ownership structure. It would also not apply to rental property, secondary residences, or speculative real estate holdings.

The exemption would terminate upon transfer of ownership. When the property is sold, taxation would resume under existing law for the new owner. This ensures that the exemption functions as a protection for homeowners rather than a permanent removal of property from the tax base. This structure preserves fairness, protects against abuse, and aligns the tax system with the principle that ownership should carry finality once the mortgage obligation has been fulfilled.

This is not a novel concept. It is the natural endpoint of what homeownership was always supposed to mean: a finish line. Missouri's laws should reflect that.

Legal and Constitutional Considerations

Missouri's Constitution already recognizes the legitimacy of homestead exemptions under Article X, Section 6(a), which authorizes the General Assembly to exempt homesteads from real estate taxation while requiring restitution to local political subdivisions for lost revenue. The Mortgage Payoff Homestead Exemption fits squarely within this framework, provided that the implementing legislation includes a mechanism to offset the impact on local funding.

To ensure long term stability and prevent legal uncertainty, the exemption should be authorized through a constitutional amendment explicitly recognizing the Mortgage Payoff Homestead Exemption as a protected homestead category. This approach would eliminate ambiguity and prevent future legislative reversal.

The Hancock Amendment, which limits tax increases without voter approval, does not prohibit tax reductions or exemptions. However, careful drafting is necessary to ensure that the exemption does not trigger unintended revenue replacement mechanisms that could shift the burden elsewhere without voter consent.

Fiscal Implementation and Education Funding Reform

The central fiscal challenge of this proposal lies in maintaining stable funding for local school districts while reducing reliance on real estate taxes. This can be accomplished through structural reform rather

than new taxation.

Missouri currently allocates substantial resources to education through the Department of Elementary and Secondary Education, which serves primarily as an administrative and regulatory body. By conducting a comprehensive audit of DESE and related administrative functions, the state can identify redundant positions, duplicative reporting requirements, and compliance layers that do not directly improve student outcomes.

Funds recovered through administrative consolidation can be redirected to local districts through a simplified funding formula that prioritizes classroom instruction. This allows the state to gradually replace the portion of local funding currently derived from real estate taxes on primary residences.

Because mortgage payoff occurs gradually across the population, the exemption will phase in naturally over time rather than creating an immediate revenue shortfall. This provides the state with the ability to adjust funding structures incrementally and responsibly.

Economic and Social Impact

The Mortgage Payoff Homestead Exemption will provide long term stability for Missouri homeowners while strengthening communities. Citizens who pay off their homes will no longer face indefinite tax liability, allowing them to remain in their communities and maintain financial independence. This reform will particularly benefit retirees, who often face increasing tax burdens despite having limited income. It will also encourage long term homeownership and responsible financial planning.

By limiting the exemption to primary residences owned by Missouri citizens, the policy avoids subsidizing corporate ownership or speculative investment while preserving the tax base associated with commercial and investment property. The result is a more stable housing environment and a tax structure that aligns with the expectations and values of Missouri citizens.

In a Nutshell

This policy does not eliminate responsibility. It recognizes responsibility fulfilled. It provides a path toward restoring ownership in its truest sense and strengthening the long term stability of Missouri families and communities.

The Mortgage Payoff Homestead Exemption restores the principle that homeownership should have a defined endpoint. When a citizen fulfills their mortgage obligation, the state's claim on that property should end as well.

Through careful constitutional authorization, administrative reform, and responsible funding reallocation, Missouri can implement this exemption without undermining education or local services. This policy does not eliminate responsibility. It recognizes responsibility fulfilled. It provides a path toward restoring ownership in its truest sense and strengthening the long term stability of Missouri families and communities.

Ownership should have a finish line. Missouri's laws should honor it.