BUDGET/TAX

Why now is the time for Montana to join the flat tax revolution

By Jason Mercier
Vice President & Director of Research

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INTRODUCTION

Montana has placed itself on the map as a quality place to live and do business. Over the last several years, significant tax and regulatory reforms have been adopted. It is no surprise, then, that Montana ranks among the regional leaders in several economic indicators. This includes a Top 10 ranking in the Tax Foundation's 2026 State Tax Competitiveness Index.

Over the last decade, the Treasure State has adopted several personal income tax reforms by reducing its numerous graduated tax brackets from seven to two, significantly dropping the top rate from 6.9% to 5.4%, and bringing record tax relief to Montanans.

Despite these efforts, Montana is still surrounded by states with lower income tax rates. This includes Idaho with a flat rate of 5.3% (both personal and corporate), Wyoming and South Dakota with no personal or corporate income tax, and North Dakota with a top graduated personal rate of 2.5%.

States across the country are competing for people and capital with tax reform. For example, there has been a flat tax revolution over the last decade, with 10 states adopting this tax reform during that period. In total, 17 states currently use (or are moving to) a flat income tax rate, including several "blue" states like Illinois (4.95%), Colorado (4.4%), Michigan (4.25%), and Pennsylvania (3.07%).

Montana could continue to improve its economic outlook by building on its impressive income tax reforms by moving to a flat income tax rate.

History of Montana's personal income tax

Montana imposed its first income tax during the Great Depression in 1933.[1] The tax rates then ranged from 1% to 4%. That remained constant until 1957, when brackets expanded, and the top rate increased to 5%. In 1959, a new top rate of 7% was added.

Brackets and income tax rates continued to increase substantially over the next few decades. The income tax rates ranged between 2% and 10% during the 1960s, and by the 1980s, the top rate had increased to 11%.[2]

In 2003, major tax changes were adopted, reducing the number of brackets from ten to seven while lowering the top income tax rate to 6.9%.[3] The next significant changes occurred in 2021. At that time, the brackets were reduced from seven to two, with two income tax rates enacted at 4.7% and 6.5%.[4]

In total, 17 states currently use (or are moving to) a flat income tax rate, including several "blue" states like Illinois (4.95%), Colorado (4.4%), Michigan (4.25%), and Pennsylvania (3.07%).

The top income tax rate was further reduced in 2023 to 5.9%. The last legislative session in 2025 saw the top rate further reduced to 5.4%. These major income tax relief efforts have brought the state's top income rate down closer to where it was first imposed at 4% in 1933.

Despite this impressive effort, more can still be done to move Montana to a flat tax rate with a regionally competitive rate.

As noted by Governor Gianforte:

> "The reality is, even after our historic tax cuts, we still have the highest income tax rate in the region. Across the country, states are cutting their income tax rates. To stay competitive, we must do the same."[5]

Why are states moving to a flat tax?

There are four important benefits of moving to a flat income tax structure: Simplicity, economic efficiency, transparency, and protection against tax increases.

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[1] "Overview Of Individual Income Tax Filing Options In The United States, Montana, And The Other States, As Well As An Evaluation Of Benefits And Drawbacks In Revising Montana's Rate Schedules," Montana Legislative Branch, February 2010, available at https://archive.legmt.gov/content/Committees/Interim/2009_2010/Revenue_and_Transportation/Meeting_Documents/Feb%2018&19%202010/OverviewTaxFiling.pdf

[2] "HB 654 – Exhibit 3," Montana Legislative Branch, March, 25, 2021, available at https://archive.legmt.gov/bills/2021/Minutes/House/Exhibits/tah59a03.pdf

[3] "15-30-103. (Temporary) Rate of tax.," Montana Code Annotated 2003, available at https://mca.legmt.gov/bills/2003/mca/15/30/15-30-103.htm

[4] "A History of Recent Individual Income Tax Changes in Montana," Montana Legislative Branch, February 25, 2026, available at https://archive.legmt.gov/content/Publications/fiscal/2027-Biennium/Committees/MARA/MARA-History-of-Income-Tax-Changes-Brochure-Feb2026.pdf

[5] "Governor Gianforte Discusses Tax Cut Priorities," Montana Governor's Office, February 25, 2026, available at https://news.mt.gov/Governors-Office/Governor-Gianforte-Discusses-Tax-Cut-Priorities

By having one flat tax rate, compliance costs are reduced, saving taxpayers time and money. Revenue forecasting is also improved, making it easier for policymakers to estimate how tax rate changes could impact collections. The neutral tax treatment of economic activity also incentivizes investment and work, leading to a growing economy.

Utilizing a flat tax rate also reduces the ability of government officials to impose discriminatory tax policy or pursue efforts to "tax the man behind the tree."[6] A tax increase imposed on everyone uniformly is less likely to occur and would be reserved as a true last resort for budgeting. This helps to keep spending and taxes in check.

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As noted by the Tax Foundation:

> "For states that want to remove barriers to upward mobility and business investment while promoting long-term economic growth and enhancing their competitive standing, moving from a graduated-rate to a single-rate individual income tax structure while reducing the top marginal rate is among the most valuable tax reforms lawmakers could adopt."[7]

Of the states that impose an income tax, there are 17 with a flat income tax rate (two based on hitting triggers).[8] Ten of those states moved to a flat tax within the last decade. Massachusetts previously had a 5.0% flat tax until a "millionaires'" tax was imposed in 2023. In 2025, Kansas passed a law to move to a 4% flat tax based on revenue triggers.[9] South Carolina approved a bill this year to transition to a 1.99% flat tax and then eventual repeal based on economic growth.[10] Here are the states with flat taxes, the rate, and the year enacted:[11]

- South Carolina – 1.99% after triggers reached (2026)
- Arizona – 2.5% (2023)
- Ohio – 2.75% (2026)
- Indiana – 2.95% (1965)
- Louisiana – 3.0% (2025)

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[6] "Congressional Record of 105th Congress," U.S. Congress, March 14, 1997, available at https://www.congress.gov/105/crec/1997/03/14/143/33/CREC-1997-03-14.pdf
[7] "The State Flat Tax Revolution: Where Things Stand Today," Tax Foundation, October 8, 2025, available at https://taxfoundation.org/data/all/state/flat-tax-state-income-tax-reform/
[8] IBID.
[9] "Kansas House passes bill to trigger income tax cuts as long as state has surplus funds," Kansas Reflector, March 25, 2025, available at https://kansasreflector.com/2025/03/26/kansas-house-passes-bill-to-trigger-income-tax-cuts-as-long-as-state-has-surplus-funds/
[10] "South Carolina moves closer to zero income tax," South Carolina Policy Council, May 9, 2025, available at https://www.scpolicycouncil.org/south_carolina_moves_closer_to_zero_income_tax
[11] "The State Flat Tax Revolution: Where Things Stand Today," Tax Foundation, October 8, 2025, available at https://taxfoundation.org/data/all/state/flat-tax-state-income-tax-reform/

- Pennsylvania – 3.07% (1971)
- Kentucky – 3.5% (2019)
- Iowa – 3.8% (2025)
- North Carolina - 3.99% (2014)
- Mississippi – 4.0% (2023)
- Kansas – 4.0% after triggers reached (2025)
- Michigan – 4.25% (1967)
- Colorado – 4.4% (1987)
- Utah – 4.5% (2007)
- Illinois – 4.95% (1969)
- Georgia – 5.19% (2024)
- Idaho – 5.3% (2023)

Combining a flat tax rate with automatic tax relief with revenue triggers

Another benefit of a flat tax rate is the ability to utilize revenue triggers to provide automatic tax relief. Several states are also using triggers to phase out their income taxes entirely.

According to the Tax Foundation:

> "Tax triggers can help ensure revenue stability and limit the uncertainty associated with changes to the tax code while providing an efficient way for states to dedicate some portion of revenue growth to tax relief."[12]

Another benefit of a flat tax rate is the ability to utilize revenue triggers to provide automatic tax relief. Several states are also using triggers to phase out their income taxes entirely.

Here are some of the notable triggers being used by states to automatically reduce income tax rates:

- Indiana triggers to 2.9% in 2027, with an additional 0.05% reduction every year that economic conditions are met through 2042.[13]

- North Carolina triggers down to 2.49% by 2030.[14]

[12] "Designing Tax Triggers: Lessons from the States," Tax Foundation, September 7, 2016, available at https://taxfoundation.org/research/all/state/designing-tax-triggers-lessons-states/

[13] "Indiana Governor Signs Legislation That Conditionally Decreases Personal Income Tax Rate," Thomson Reuters, April 22, 2025, available at https://tax.thomsonreuters.com/news/indiana-governor-signs-legislation-that-conditionally-decreases-personal-income-tax-rate/

[14] "North Carolina's Budget Should Prioritize Pro-Growth Structural Reforms," Tax Foundation, June 21, 2023, available at https://taxfoundation.org/blog/nc-budget-north-carolina-tax-reform/

Along with moving Montana to a competitive flat income tax rate, attention should also be given to reforming the state's regionally high corporate income tax.

- Mississippi triggers to 3% by 2030, with future reductions until the tax rate hits zero.[15]
- Oklahoma triggers down based on economic growth until the income tax is eventually phased out.[16]
- Kansas triggers to a 4% flat tax based on economic growth.[17]
- Kentucky triggers down based on economic growth until the income tax is eventually phased out.[18]
- South Carolina triggers to 1.99% flat tax and then eventual repeal based on economic growth.[19]
- West Virginia triggers down based on economic growth until the income tax is eventually phased out.[20]
- Missouri lawmakers this year sent voters a constitutional amendment to allow replacing the income tax with an increase in sales taxes.[21]

Reforming corporate income tax is also important for economic growth

Along with moving Montana to a competitive flat income tax rate, attention should also be given to reforming the state's regionally high corporate income tax. Imposed at 6.75%, the Treasure State corporate tax rate is an outlier compared to neighboring states.[22]

There is no corporate income tax in Wyoming or South Dakota. North Dakota's rate is 4.31%, and Idaho's rate is 5.3%.

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[15] "Gov. Reeves Signs Historic Legislation Eliminating Mississippi's Individual Income Tax," Mississippi Governor's Office, March 27, 2025, available at https://governorreeves.ms.gov/gov-reeves-signs-historic-legislation-eliminating-mississippis-individual-income-tax/

[16] "Senate sends state budget bill, tax cut to Oklahoma governor," Oklahoma Voice, May 22, 2025, available at https://oklahomavoice.com/2025/05/22/senate-sends-state-budget-bill-to-oklahoma-governor/

[17] "Kansas House passes bill to trigger income tax cuts as long as state has surplus funds," Kansas Reflector, March 25, 2025, available at https://kansasreflector.com/2025/03/26/kansas-house-passes-bill-to-trigger-income-tax-cuts-as-long-as-state-has-surplus-funds/

[18] "Continuing Kentucky Tax Reform Efforts," Bluegrass Institute, March 9, 2026, available at https://www.bluegrassinstitute.org/continuing-ky-tax-reform-efforts/

[19] "South Carolina moves closer to zero income tax," South Carolina Policy Council, May 9, 2025, available at https://www.scpolicycouncil.org/south_carolina_moves_closer_to_zero_income_tax

[20] "West Virginia Legislature Delivers Third Income Tax Reduction, Scores Several Conservative Policy Wins," Americans for Tax Reform, March 16, 2026, available at https://atr.org/west-virginia-legislature-delivers-third-income-tax-reduction-scores-several-conservative-policy-wins/

[21] "Missouri Voters to Decide to Eliminate Income Tax, Raise Sales and Use Taxes," CPA Practice Advisor, April 22, 2026, available at https://www.cpapracticeadvisor.com/2026/04/22/missouri-voters-to-decide-to-eliminate-income-tax-raise-sales-and-use-taxes/182024/

[22] "State Corporate Income Tax Rates and Brackets, 2026," Tax Foundation, January 5, 2026, available at https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets/

The Treasure State still has one of the highest regional income tax rates and risks being left behind as more states join the flat tax revolution.

Although Montana's overall tax competitiveness ranking is good, its high corporate tax rank is dragging down its performance.

Discussing why corporate tax rates matter, the Tax Foundation notes:

> "Understanding who bears the burden of the corporate tax and the effects of a higher rate are essential to sound policymaking. A competitive corporate rate would help our tax code raise revenue without standing in the way of individuals looking for greater opportunities—for themselves, their families, their innovations, and their savings."[23]

Though it is often assumed that corporate taxes are paid by shareholders, the incidence of the tax is ultimately borne by workers through lower wages and consumers with higher prices.[24] Ideally, Montana's corporate tax rate should eventually match the new flat personal income tax rate.

Conclusion

Montana has made tremendous progress in improving its economic outlook by consolidating the number of income tax brackets from ten to two, while also reducing the top tax rate from 11% to 5.4%. Despite these significant reforms, the Treasure State still has one of the highest regional income tax rates and risks being left behind as more states join the flat tax revolution.

The good news is that Governor Gianforte has made moving the state to a flat tax one of his top priorities for the 2027 Legislative Session. Moving Montana to a flat tax would improve the tax code's simplicity, economic efficiency, and transparency while also protecting against future tax increases.

As noted by national tax experts, reforming graduated income taxes to a flat low rate improves a state's competitiveness, outlook for economic growth, and is one of the most "valuable tax reforms lawmakers could adopt."[25]

Now is the time for Flat Fair Montana.

[23] "Why Should I Care About the Corporate Tax Rate?," Tax Foundation, September 23, 2024, available at https://taxfoundation.org/blog/why-corporate-taxes-important/
[24] "Who Really Pays? Reevaluating the Corporate Tax Burden," Mercatus Center, September 23, 2025, available at https://www.mercatus.org/research/policy-briefs/who-really-pays-reevaluating-corporate-tax-burden
[25] "The State Flat Tax Revolution: Where Things Stand Today," Tax Foundation, October 8, 2025, available at https://taxfoundation.org/data/all/state/flat-tax-state-income-tax-reform/

SUMMARY & KEY FACTS

Montana has made substantial progress in lowering its income tax burden over the past two decades, but it still has one of the highest personal and corporate income tax rates in the region. This study argues that adopting a competitive flat income tax—while continuing to reduce rates through revenue triggers—would simplify the tax code, improve economic competitiveness, encourage investment, and help Montana remain competitive with neighboring states that already have lower or no income taxes.

- Montana has dramatically reduced its top income tax rate, cutting it from 11% in the 1980s to 5.4% today while reducing the number of tax brackets from ten to two.
- Seventeen states now have (or are moving to) a flat income tax, with 10 states adopting flat-tax reforms in the past decade, reflecting a growing national trend toward simpler tax systems.
- Neighboring states remain more competitive on income taxes. Wyoming and South Dakota have no personal income tax, North Dakota's top rate is 2.5%, and Idaho has a 5.3% flat tax, leaving Montana with one of the region's highest rates.
- Flat taxes offer four major policy advantages: greater simplicity, improved economic efficiency, increased transparency, and stronger protection against future tax increases by making targeted tax hikes more difficult.
- The study also recommends reforming Montana's 6.75% corporate income tax, arguing that aligning it more closely with a future flat personal income tax would boost competitiveness and economic growth because high corporate taxes ultimately affect workers and consumers through lower wages and higher prices.

ABOUT THE AUTHOR

Jason Mercier has more than 20 years experience working with public officials, media, and citizen stakeholders across the nation to improve the fiscal, governance and transparency policies of local and state governments. He spent the last 16 years as the Director of the Center for Government Reform at Washington Policy Center.

Jason has been appointed by lawmakers and governors to various tax, budget and transparency reform committees. He is a Fellow with the national Better Cities Project and is also a member of the State Tax Advisory Board for the Tax Foundation. Jason has testified numerous times before legislative committees across the country on government reform issues, and his op-eds have been published in numerous newspapers across the region.

When he’s not geeking out on studies and audits, Jason’s life revolves around his wife and two daughters and the 49ers’ schedule.

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mountainstatespolicy.org PO BOX 2639, COEUR D’ALENE, ID, 83816 (208) 295-9525