BUDGET & TAX

Policy reforms to improve transparency and competitiveness of Montana’s taxes

By Jason Mercier
Vice President and
Director of Research

MARCH 2025

MOUNTAIN STATES
POLICY CENTER

Policy reforms to improve transparency and competitiveness of Montana's taxes

By Jason Mercier
Vice President & Director of Research

INTRODUCTION

States are in a fierce economic race for businesses and citizens to help grow their economies, thus creating a stable budget climate that provides the revenues necessary to fund the core functions of government. People and entrepreneurs are voting with their feet, moving to those states with a low regulatory and tax environment.

Montana has been among the winners in this economic race, but more can be done to help keep the state on the path to future success. This paper provides several recommendations to improve the Treasure State's tax climate to help it remain competitive with its neighbors.

KEY INFORMATION COLUMN

There are currently 17 states with some form of supermajority or voter approval requirement for tax increases.

Protect taxpayers by requiring voter approval or a legislative supermajority for tax increases

If there's one thing Americans can still agree on it's that tax policy is one of the most consequential decisions our government makes, impacting the economy and family budgets. There is also general agreement that tax increases should be a last resort when budgeting and imposing them should not be taken lightly by policymakers. One way to ensure this occurs is by adding requirements to a state's constitution that require a supermajority vote or voter approval to raise taxes. This type of taxpayer protection already exists in several states, but not in Montana.

There are currently 17 states with some form of supermajority or voter approval requirements for tax increases. [1]

Here are examples of the legislative vote thresholds required to raise taxes in those states:

- <u>3/5 vote:</u> Delaware, Kentucky, Mississippi, and Oregon.
- <u>2/3 vote:</u> Arizona, California (includes fee increases), Florida, Louisiana, Nevada (includes fee increases), South Dakota, and Wisconsin.
- <u>3/4 vote:</u> Arkansas, Michigan (property taxes only), and Oklahoma.
- <u>Other:</u> Alabama (state income and property taxes cannot be increased without a constitutional amendment), Colorado (voter approval is required for all tax increases), and Missouri (voter approval is required to raise taxes above a set revenue cap).

Here are examples of how these tax restrictions are worded in state constitutions:

- California Constitution Article 13a, Section 3: "Any change in state statute which results in any taxpayer paying a higher tax must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed."[6]
- South Dakota Constitution Article 11, Section 14: "Vote required to impose or increase taxes. The rate of taxation imposed by the State of

[1] "Senate considers supermajority for taxes constitutional amendments," Washington Policy Center, February 2013, available at https://www.washingtonpolicy.org/publications/detail/senate-considers-supermajority-for-taxes-constitutional-amendments
[6] "California Constitution Article XIII A - Tax Limitation Section 3," Justia Law, accessed on October 23, 2023, available at https://law.justia.com/constitution/california/article-xiii-a/section-3/

KEY INFORMATION COLUMN

Proactively acting to protect taxpayers by sending voters a supermajority for tax increases constitutional amendment is a prudent thing for policymakers to do.

Increasing the tax burden imposed on Montana families and businesses should first secure a broad consensus and always be the last resort when budgeting.

> South Dakota in regard to any tax may not be increased and no new tax may be imposed by the State of South Dakota unless by consent of the people by exercise of their right of initiative or by two-thirds vote of all the members elect of each branch of the Legislature."[7]

Proactively acting to protect taxpayers by sending voters a supermajority for tax increases constitutional amendment is a prudent thing for policymakers to do. Whether requiring voter approval for all tax increases like in Colorado or needing a 2/3 legislative threshold as occurs in Florida, increasing the tax burden imposed on Montana families and businesses should first secure a broad consensus and always be the last resort when budgeting.

Using triggers to reduce income taxes

Over the past few years, lawmakers in Montana have been working on income tax reform by reducing rates. These tax reductions follow a national trend. While these efforts in Montana are welcome, the Treasure State risks falling behind its neighbors if it doesn't take further action.
Here are some of the current regional income tax rates Montana is competing with:[8]

- Montana - 5.9% (Gov. Gianforte 2025 proposal would drop to 4.9%)
- Idaho - 5.3% (reduction adopted in 2025)
- Utah – 4.55%
- Colorado – 4.25% (temporary – capped at 4.40%)
- North Dakota – 2.5%
- Nevada/South Dakota/Washington/Wyoming – No personal income tax (though Washington does have a standalone 7% capital gains income tax)

Other states across the country with income taxes are working to further reduce their rates, some with the goal of eventually repealing them. So how can Montana lawmakers ensure the income tax burden remains low, and the state is not over collecting? One option is to use a revenue trigger for automatic reductions.

As the Tax Foundation reports:

> "When North Carolina legislators committed to comprehensive tax reform in 2013, they broadened tax bases and eliminated exemptions to

[7] "Constitution," South Dakota Legislature, accessed on October 23, 2023, available at https://sdlegislature.gov/Constitution/11-14
[8] "Idaho legislature adopts significant income tax savings," Mountain States Policy Center, March 4, 2025, available at https://www.mountainstatespolicy.org/idaho-legislature-adopts-significant-income-tax-savings

KEY INFORMATION COLUMN

By using automatic triggers, there would be no need for special sessions of the legislature or one-time tax rebate checks that show the government has over-collected.

> fund rate reductions—but then turned to 'tax triggers' to implement a schedule of further rate cuts, as revenue permitted, in subsequent years. Seeking a lower individual income tax rate, Massachusetts policymakers opted for a gradual phase-in of rate cuts, proceeding only when revenue growth was more than sufficient to absorb the rate change."[9]

By using automatic triggers, there would be no need for special sessions of the legislature or one-time tax rebate checks that show the government has over-collected. The reduction would happen automatically. The exact revenue percentage over expectations, the period of time required to make sure it is consistent, and the corresponding income tax rate reduction would all need to be set by lawmakers.

Adopting this type of policy would send a clear message that Montana will continue to reduce the income tax burden it is placing on families and businesses. And the more the economy booms, the lower the tax rate.
As the Tax Foundation notes, "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."[10]

Rarely do policymakers get such an enormous opportunity to take advantage of surging tax revenues and the economic environment to lower the tax burden and bring more stability to government revenues. With a revenue trigger, the more Montana has in surplus, the lower the income tax rate will go.

As the Tax Foundation points out, "well-designed triggers limit the volatility and unpredictability associated with any change to revenue codes and can be a valuable tool for states seeking to balance the economic impetus for tax reform with a governmental need for revenue predictability."[11]

What about the complaints that income tax reductions only benefit the wealthy? A couple of things to keep in mind about this.

First, the tax code shouldn't exist to redistribute income. Its focus should be on funding the core functions of government using the principles of transparency, simplicity, neutrality, and stability while causing the least amount of economic distortions possible.

[9] "Tax Foundation, Designing tax triggers: lessons from the states," available at https://taxfoundation.org/designing-tax-triggerslessons-states/

[10] IBID.
[11] IBID.

KEY INFORMATION COLUMN

Don't overlook the impact of corporate income tax cuts on increased economic activity, including more business investment, increased employment and higher wages.

Second, when talking about taxes based on a percentage of income, the relief will be proportional to the tax paid. There are many exemptions, deductions, and targeted credits specifically designed to help alleviate the tax burden for low-income individuals.

Finally, don't overlook the impact of corporate income tax cuts on increased economic activity, including more business investment, increased employment and higher wages.

By further reducing the income tax burden and the economic drag these types of taxes create, lawmakers are putting families, businesses, and Montana's economy in a strong position for the best overall tax climate for success.

Adopt Truth in Taxation to improve property tax accountability

Property taxes are an important part of the tax base for school districts, local governments, and many states. Though based on a relatively straightforward calculation, they are among the least understood taxes by taxpayers. Although there are variations in each state, the general formula for property taxes is the value of the property multiplied by the tax rate.
Too often taxpayers focus on assessed values instead of the spending decisions made by government officials when considering their property tax burden.

First, taxpayers need to know that assessments are just a part of the calculation. The main driver of property taxes is spending increases approved by policymakers and voters themselves through levies. The assessor is not responsible for any property tax increase, the local budget writers are.
This is why efforts to restrict property assessments are often misplaced and lead to other problems. The better way to control property tax increases is on the spending side and/or with levy restrictions. One way to help bring greater transparency to the fact that spending is the main cause of property tax increases is with a reform called Truth in Taxation.

To bring more transparency to property tax increases, Utah was the first to adopt Truth in Taxation in 1985.[12] Along with Utah, Truth in Taxation exists in Iowa, Kansas, Nebraska, and Tennessee. This reform is also currently under consideration in Idaho. Here is how the Utah Legislature describes the property tax transparency process:

> "The basic concept of the system is that taxing entities may only budget the same amount of property tax each year, unless they have 'new growth' (not just change in value on existing properties) **or go through a very public process of notifying the public and holding a public**

[12] "A History of Property Tax in Utah," Utah Legislature, September 2010, available at https://le.utah.gov/lrgc/briefings/BriefingPaperPropertyTaxHistorySept2010.pdf

KEY INFORMATION COLUMN

One way to enhance the Truth in Taxation postcard for Montana would be to include a QR code that would take taxpayers to a landing page on a taxing district's website where additional explanatory details about the proposed increase and budget could be provided.

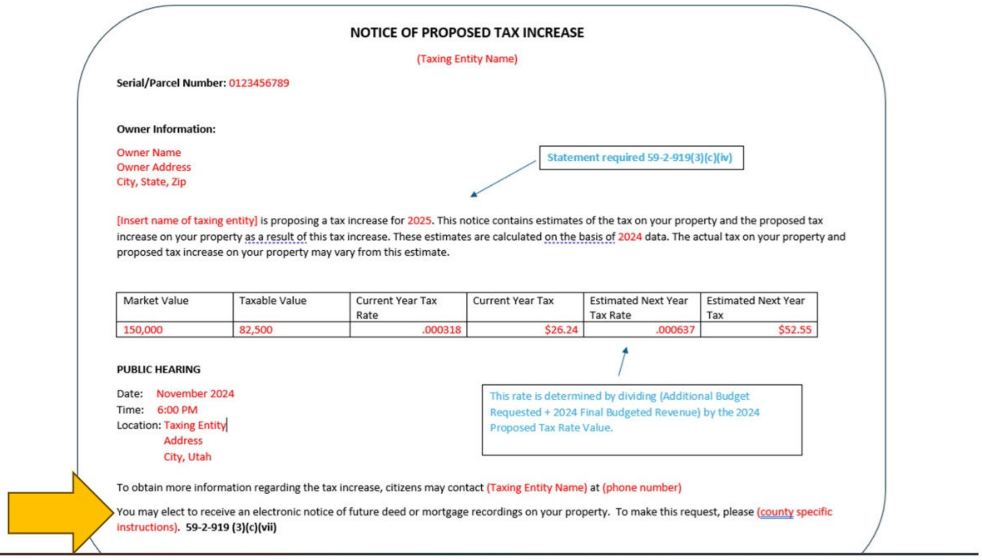
> **hearing on the proposed revenue increase**. To achieve this, as taxable values change, the tax rate automatically adjusts to provide a constant amount of revenue. When values increase, the tax rate adjusts down to provide the taxing entity the same amount of revenue as it received in the prior year. When values decrease, the tax rate adjusts up to provide the same amount of revenue."

Utah's Property Tax Division further explains:

> "Property Tax increases require a Truth in Taxation process of public disclosure. Taxing entities are required to follow a series of date specific steps, including notification to the county, newspaper advertisements, **parcel specific notices, and a public hearing**, before adopting a property tax rate above a calculated certified tax rate."[13]

Before moving forward with property tax increases, government officials in Utah need to first fill out a "Tax Increase Checklist" and comply with the "Tax Increase Requirements"[14] details under Truth in Taxation.
Here is an example of the Utah Truth in Taxation postcard that is sent to taxpayers:

One way to enhance the Truth in Taxation postcard for Montana would be to include a QR code that would take taxpayers to a landing page on a taxing district's website where additional explanatory details about the proposed increase and budget could be provided.



NOTICE OF PROPOSED TAX INCREASE

(Taxing Entity Name)

Serial/Parcel Number: 0123456789

Owner Information:

Owner Name
Owner Address
City, State, Zip

Statement required 59-2-919(3)(c)(iv)

[Insert name of taxing entity] is proposing a tax increase for 2025. This notice contains estimates of the tax on your property and the proposed tax increase on your property as a result of this tax increase. These estimates are calculated on the basis of 2024 data. The actual tax on your property and proposed tax increase on your property may vary from this estimate.

Market Value	Taxable Value	Current Year Tax Rate	Current Year Tax	Estimated Next Year Tax Rate	Estimated Next Year Tax
150,000	82,500	.000318	$26.24	.000637	$52.55

PUBLIC HEARING

Date: November 2024
Time: 6:00 PM
Location: Taxing Entity
Address
City, Utah

This rate is determined by dividing (Additional Budget Requested + 2024 Final Budgeted Revenue) by the 2024 Proposed Tax Rate Value.

To obtain more information regarding the tax increase, citizens may contact (Taxing Entity Name) at (phone number)

You may elect to receive an electronic notice of future deed or mortgage recordings on your property. To make this request, please (county specific instructions). 59-2-919 (3)(c)(vii)

[13] Tax Increase Requirements," Utah Property Tax Division, accessed on September 2023, available at https://propertytax.utah.gov/tax-increases/

KEY INFORMATION COLUMN

To be fully engaged in our governance, citizens need to be able to evaluate the level and value of service they receive for the taxes they pay.

Truth in Taxation was one of the recommendations made by Governor Gianforte's 2024 Property Tax Advisory Committee.[15] This reform would help empower Montana taxpayers to better engage and understand their local property tax burden and the connection to spending decisions.

Create a Tax Transparency website

To be fully engaged in our governance, citizens need to be able to evaluate the level and value of service they receive for the taxes they pay. One of the ways to do this is with budget transparency resources. Spending details, however, are only part of the equation. Meaningful transparency on the amount of taxes we pay and to whom is often the missing component. Montana's Department of Revenue reports there are nearly 1,400 taxing districts in the state. This means the typical home and business could be subject to numerous taxing districts at the same time.

The ability to hold the appropriate level of government accountable for that tax burden means knowing how much of the total tax bill they are responsible for and if the cost is worth the level and quality of service provided. Now imagine if you could go to a tax transparency website and enter your home or business address to quickly see all the taxing districts you are subject to, at what rates, and perhaps be provided an educational calculator on your total estimated tax liability based on where you live.
This is the benefit of providing taxpayers with a tax transparency website to help make it clear which level of government is responsible for the taxes being imposed.

U.S. Supreme Court Justice Oliver Wendell Holmes, Jr, once noted, "Taxes are the price we pay for a civilized society."

Civilization, however, need not be shrouded in the mystery of compounding tax districts without meaningful transparency. Policymakers in Montana should remove the mystery surrounding taxation and the state's 1,400 taxing districts by adopting a tax transparency website.

Use taxpayer receipt to provide a snapshot of government spending

We're all familiar with the shopping experience of seeing the total amount we owe ring up on the register and then being provided with an itemized receipt showing what we purchased. This simple sheet of paper helps us remember and understand where our shopping dollars went. Now imagine if you were provided with a taxpayer receipt providing the same information for your tax dollars and how it relates to government spending.

---

[15] "Montana considering "Truth in Taxation," Mountain States Policy Center, April 7, 2024, available at https://www.mountainstatespolicy.org/montana-considering-truth-in-taxation

KEY INFORMATION COLUMN

Utah's taxpayer receipt allows users to see what their tax dollars buy by an individual providing information on household size, income, amount of home value or rent, and type of cars and miles driven.

Utah is doing just this. Adopted by lawmakers in 2013, HB 129 required the Office of Legislative Fiscal Office:

> "To develop a taxpayer receipt: (i) available to taxpayers through a website; and (ii) that allows a taxpayer to view on the website an estimate of how the taxpayer's tax dollars are expended for government purposes; and to publish or provide other information on taxation and government expenditures that may be accessed by the public."[16]

Utah's taxpayer receipt allows users to see what their tax dollars buy by an individual providing information on household size, income, amount of home value or rent, and type of cars and miles driven.
The taxpayer receipt site notes:

> "Your data is not stored or sent to any government entity. Results are illustrative of a typical full-year Utah resident with similar circumstances. Only State of Utah imposed taxes. Does not include local sales or property taxes or federal fuel or income taxes. Does not include fines, fees, or other taxes and charges paid to state government."

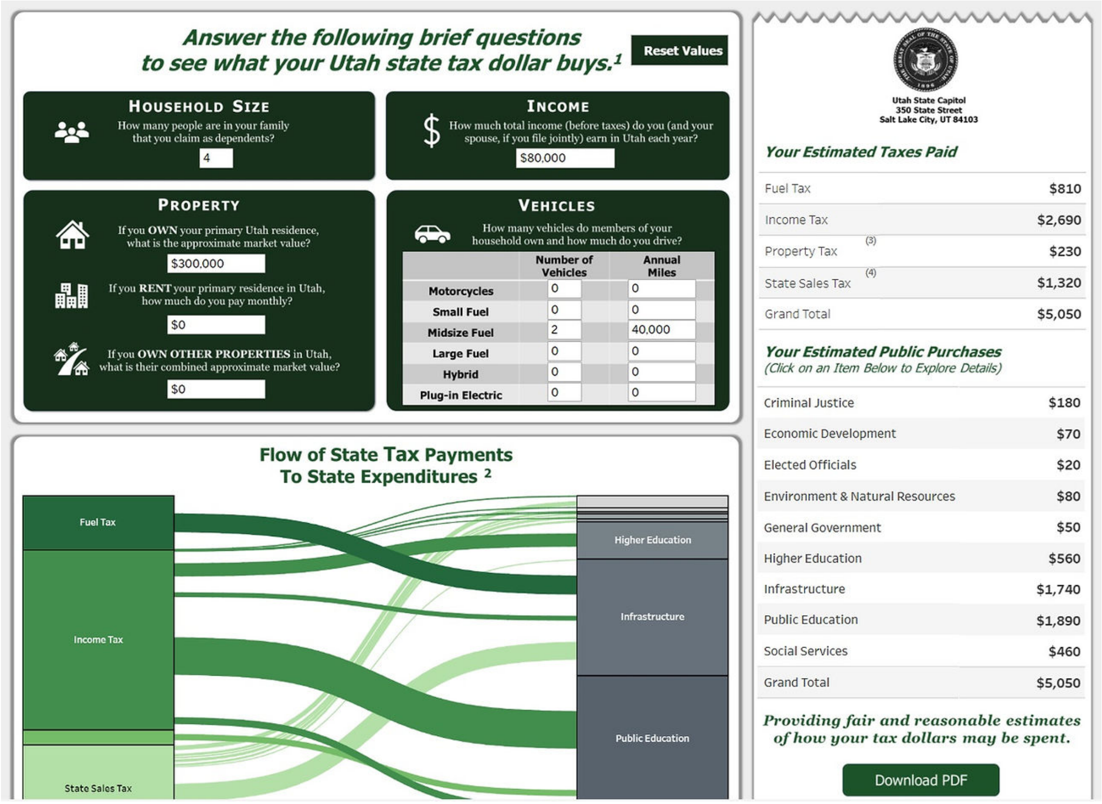
Here is an example of what the Utah taxpayer receipt looks like by using these data points: A family of four, with $80,000 in income, a home valued at $300,000, and two midsized cars driven for a combined 40,000 miles a year.

According to the Utah taxpayer receipt, our sample family would owe $810 in fuel taxes, pay $2,690 in income taxes, $230 in state property taxes, and $1,320 in sales taxes for a total state tax liability of $5,050. The estimated use for these tax dollars would be for the following: $180 for criminal justice, $70 for economic development, $20 for elected officials, $80 for environmental and natural resources, $50 for general government, $560 for higher education, $1,740 for infrastructure, $1,890 for public education, and $480 for social services ($5,050 in state spending).

Users of the Utah taxpayer receipt site are also able to drill down further on the data for additional information. By combining a taxpayer receipt with a tax transparency website and state budget transparency resources, Montana policymakers can help put taxpayers in the driver's seat to understand where their tax dollars are going and how much they are paying for those government services.

[16] "H.B. 129 Amendments to Powers, Functions, and Duties of Office of Legislative Fiscal Analyst – 2013," Utah Legislature, available at https://le.utah.gov/~2013/bills/static/hb0129.html

KEY INFORMATION COLUMN



Adopt Truth in Labeling for gas taxes

The U.S. Department of Transportation says gas taxes make up about 19% of the overall cost of a gallon – but this will vary depending on the state and the current price.

Gas prices are inflated by government taxes and fees. Do consumers in Montana really know what they are paying when they fill up at the gas station? The answer is likely no. That's because gasoline is one of the few products we purchase where taxes and fees are built into the price. This means there is no transparency about the true financial burden placed on consumers. The fix to this lack of transparency is what has been called "truth-in-labeling."

This reform can be as simple as placing a sticker on gas pumps showing the breakdown of state and federal taxes per gallon of taxes.

Gas prices are difficult to predict. Most of the cost of a gallon of gas comes from the price of crude oil, which can fluctuate wildly. There are several components to the cost of a gallon of gas. The U.S. Department of Transportation says gas taxes make up about 19% of the overall cost of a gallon – but this will vary depending on the state and the current price.

For example, if the gas price is high, the gas tax percentage will be low. Likewise, if the gas price is low, the gas tax percentage could be much higher. In Montana, the current state gas tax costs consumers 33 cents per gallon. This does not include the 18.4 cents federal gas tax, meaning the total cost of taxes

KEY INFORMATION COLUMN

Unfortunately, gasoline taxes are not transparent. Because they are built into the cost of the product, citizens have no idea how much they are really paying, and where it is going.

is 51.4 cents per gallon for drivers in the state. When taken together, a large portion of the overall cost of a gallon of gas goes toward taxes, which are mostly used to fund roads, bridges and a state's transportation system. However, when policymakers adopt gas tax hikes, there is no accountability built into the system. The cost is hidden in the price.

While not necessarily eager to pay more, taxpayers will typically support government funding that they know is transparent and will be wisely used.

Unfortunately, gasoline taxes are not transparent. Because they are built into the cost of the product, citizens have no idea how much they are really paying, and where it is going. Inevitably, it makes it difficult for citizens to grasp the amount of funds available for transportation, and where they are being spent. In an age of surging gas prices, a "truth-in-labeling" policy is a reform worth pursuing.

Conclusion

The Treasure State has taken impressive steps to improve its tax climate and set businesses and citizens on the path to economic success. Montana's neighbors have also been acting in this competition to attract and maintain residents, meaning more can still be done to help make the state the preferred place to live and open a business. By adopting additional policies to improve the transparency and structure of Montana's taxes, policymakers can keep the state's "Open for Business" sign shining bright.

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.

MOUNTAIN STATES
POLICY CENTER

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