Securing Ownership by Eliminating Property Taxes

A NATIONAL FRAMEWORK FOR REFORM WITH MONTANA AS A CASE STUDY

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Executive Summary

Across America, frustration with property taxes is reaching a breaking point. States including Florida, Iowa, Kansas, Montana, Nebraska, North Dakota, Pennsylvania, South Carolina, Texas, and Wyoming, and likely others soon, are actively debating ways to reduce or eliminate property taxes. This is driven in part by worsening housing affordability, and taxpayers facing higher tax bills that often grow faster than incomes, inflation, and population growth.

Property taxes differ from most other taxes because they apply to ownership itself. Even after a home is fully paid off, homeowners must continue paying annual taxes simply to keep their property. Failure to pay can ultimately result in government seizure of the property. For many Americans, especially retirees and working families on fixed incomes, this creates growing financial insecurity and undermines the concept of true ownership.

The economic effects extend beyond homeowners. Property taxes raise rents as landlords pass costs through to tenants. They increase operating costs for businesses, reduce investment, distort housing markets, discourage mobility, and raise costs across the economy. Recent research has also highlighted how property tax assessment systems can disproportionately burden lower-valued homes through unequal assessments and appraisal practices.

At the same time, rising property taxes are primarily a spending problem. Property tax collections increase because government spending increases. Relief efforts that do not address spending growth often provide only temporary reductions before taxes rise again.

This report examines the broader economic and fiscal problems associated with property taxes and evaluates multiple reform options available to states. These include:

- levy and revenue limits,
- spending limits,
- surplus-driven tax rate compression,
- broad-based consumption tax reforms,
- school finance restructuring,
- assessment reforms,
- local tax restructuring,
- and constitutional taxpayer protections.

Rather than advocating a one-size-fits-all solution, this report presents a framework that states can adapt to their existing tax systems, constitutional structures, economic conditions, and political environments.

Montana serves as a particularly important case study because it currently operates without a broad statewide sales tax. This creates a unique opportunity to examine how a constitutionally limited consumption tax, paired with strict spending restraint, could reduce or eliminate large portions of property taxes while maintaining funding for core government functions.

The report argues that durable property tax reform must begin with controlling government spending growth. Limiting spending growth to below the rate of population growth plus inflation creates the fiscal space needed for long-term tax relief while improving transparency, accountability, and taxpayer protections.

Ultimately, the broader debate is not simply about taxation. It is about ownership, affordability, economic opportunity, and the proper role and size of government. States that successfully pair fiscal discipline with structural tax reform can improve housing affordability, strengthen economic competitiveness, and restore greater security for homeowners, renters, workers, and businesses alike.

Introduction

Across the country, Americans are increasingly questioning whether they truly own their homes when rising property taxes can force them out regardless of income, age, or financial circumstances.

What was once viewed as a localized tax issue has become part of a broader national debate about housing affordability, economic mobility, government spending, and real property ownership itself. States including Florida, Texas, Montana, Nebraska, North Dakota, Pennsylvania, South Carolina, Wyoming, Kansas, and others are now actively considering major property tax reforms ranging from levy limits and assessment changes to surplus-driven tax compression and full elimination proposals.

The growing momentum is not difficult to understand.

Housing costs have risen sharply across much of the country. Insurance premiums, construction costs, mortgage rates, and regulatory barriers continue putting pressure on families trying to buy or keep homes. Property tax collections have often increased far faster than population growth, inflation, or household income.

Unlike income or sales taxes, property taxes apply regardless of a household's current ability to pay. Retirees on fixed incomes, families experiencing temporary hardship, and longtime homeowners in rapidly appreciating neighborhoods can all face rising tax burdens that are disconnected from their actual income. Renters also bear much of the burden through higher housing costs as landlords pass through property tax increases.

Recent academic research has further challenged traditional assumptions about property taxes. A growing body of evidence suggests that lower-valued homes are frequently overassessed relative to higher-valued homes, shifting larger effective tax burdens onto lower- and middle-income households. These findings complicate the long-standing argument that property taxes are among the least harmful forms of taxation.

Many economists and policymakers continue defending property taxes because they provide relatively stable local government revenue and are difficult to avoid. This report does not ignore those arguments. Instead, it evaluates the broader economic tradeoffs associated with taxing ownership and examines how states can responsibly reduce or eliminate property taxes while maintaining fiscal stability and limiting government growth.

Montana provides a particularly useful case study. Unlike most states, Montana does not currently impose a broad statewide sales tax. That creates a unique opportunity to evaluate how a limited consumption tax, paired with strong spending limits and taxpayer protections, could replace large portions of property taxes over time. Because many states already largely control school finance systems, replacing school property taxes at the state level may offer a practical starting point for reform.

The broader lesson extends well beyond Montana. States across the country are searching for ways to improve affordability, strengthen ownership, restrain government growth, and modernize outdated tax systems. Property tax reform is increasingly becoming part of that conversation. This report evaluates the economic problems associated with property taxes, explains why rising tax burdens ultimately stem from government spending growth, and outlines several reform frameworks that states may consider, depending on their fiscal structure and policy goals.

The Case Against Property Taxes in Montana

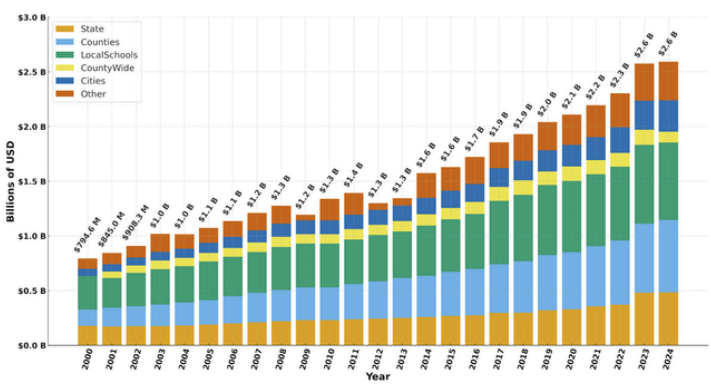
Property taxes have quietly eroded Montanans' economic freedom for decades. They punish homeownership, discourage capital investment, and destabilize family finances, especially in high-growth areas like Gallatin and Missoula counties.

Montana relies heavily on property taxes while maintaining moderately low income taxes. Both taxes hinder productivity, but property taxes also tax accumulated wealth, discouraging investment and undermining long-run economic growth. They create a structural barrier to ownership and generational wealth formation. Property taxes are especially harmful in rural areas with limited housing supply, where rising taxable values can force families to sell or downsize even when their mortgage is paid off. These push-out effects are economically and socially damaging.

Sustained High Growth in Property Tax Collections, 2000 – 2024

Montana's total property tax collections have increased nearly every year since 2000, except for a short reprieve between 2009 and 2013. **Figure I** shows the total property tax collections between 2000 and 2024 by taxing jurisdiction. The six major taxing jurisdictions include (1) Cities and Towns, (2) Counties, (3) State collections, (4) Local Schools, (5) County-wide schools, and (6) Other taxing jurisdictions of special districts' taxes and fees. Together, these jurisdictions collected $2.6 billion in property taxes in 2024 and $30.5 billion in cumulative property taxes between 2000 and 2024.

Figure I: Property Tax Collections in Montana by Taxing Jurisdiction, 2000 - 2024



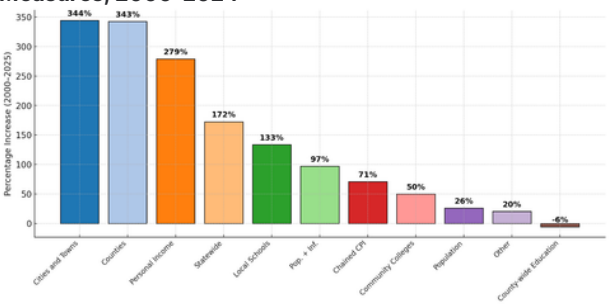
Sources: Montana Department of Revenue Biennial Report, 2000, Montana Department of Revenue Biennial Report, 2024.

Unsustainable Growth in Property Tax Collections

Property tax collections have grown far faster than population growth plus inflation — a benchmark for the average taxpayer's ability to pay for taxes that fund government spending.

Figure IIa compares the nominal growth in property tax collections by type of government entity between 2000 and 2024 with the increases in population, inflation, and personal income.

Figure IIa. Comparison of Nominal Property Taxes and Economic Measures, 2000-2024

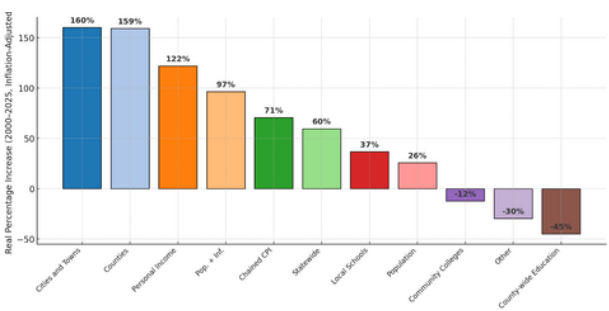


Sources: Montana Department of Revenue Biennial Report, 2000, Montana Department of Revenue Biennial Report, 2024, U.S. Bureau of Economic Analysis, Personal Income by State; FRED: Chained CPI; FRED: Resident Population in Montana.

Property tax collections have grown nearly twice as fast as population growth plus inflation. This means property tax burdens have risen disproportionately. Even renters bear the impact. In tight rental markets, landlords pass property taxes through into higher monthly rents.

Adjusting these figures for inflation using the Chained CPI for All Urban Consumers from the U.S. Bureau of Labor Statistics reveals similar trends in real (inflation-adjusted) property taxes, as shown in **Figure IIb**.

Figure IIb. Comparison of Inflation-Adjusted (Real) Property Taxes and Economic Measures, 2000-2024



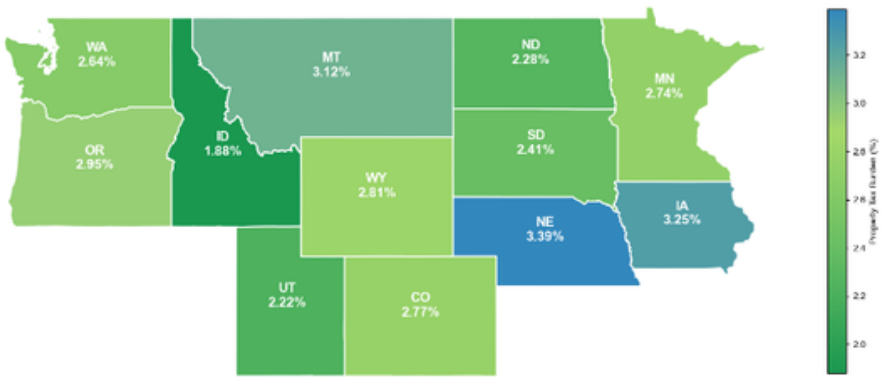
Sources: Montana Department of Revenue Biennial Report, 2000, Montana Department of Revenue Biennial Report, 2024, U.S. Bureau of Economic Analysis, Personal Income by State; FRED: Chained CPI; U.S. Census Bureau, Population and Housing Unit Estimates Tables. Authors' calculations based on the growth in population and the U.S. Chained Consumer Price Index.

Property taxes in Montana have grown at an unsustainable rate for many Montanans. There are better fiscal options that do not jeopardize essential public services and that can free Montanans from the ongoing requirement to pay the government for the right to own property and remain in their homes.

State Tax Competitiveness and Impact on Affordability

Figure III compares Montana's total property tax collections expressed as a percentage of total state personal income. Montana collected more property taxes as a share of personal income than any of its bordering states.

Figure III: Property Tax Burden as a Percentage of Personal Income, 2024



Source: [WalletHub Tax Burden By State Study](#).

Compared with neighboring states, Montana's property tax burden is among the highest in the Mountain West. Wyoming and Idaho each collect less in property taxes relative to personal income—largely because they rely on broader sources of revenue, such as sales and severance taxes, to fund local governments and school districts. In contrast, Montana's narrow tax structure forces taxpayers with growing property valuations to carry a larger share of the fiscal load. As a result, total property tax collections statewide have grown roughly 60% faster than population growth plus inflation since 2000.

Without structural reform, property tax growth will continue to outpace the average taxpayer's ability to pay for spending, underscoring the need for a new framework that ties local revenue growth to taxpayers' economic capacity and shifts a portion of the burden to a broader, more stable base, such as a state or local sales tax.

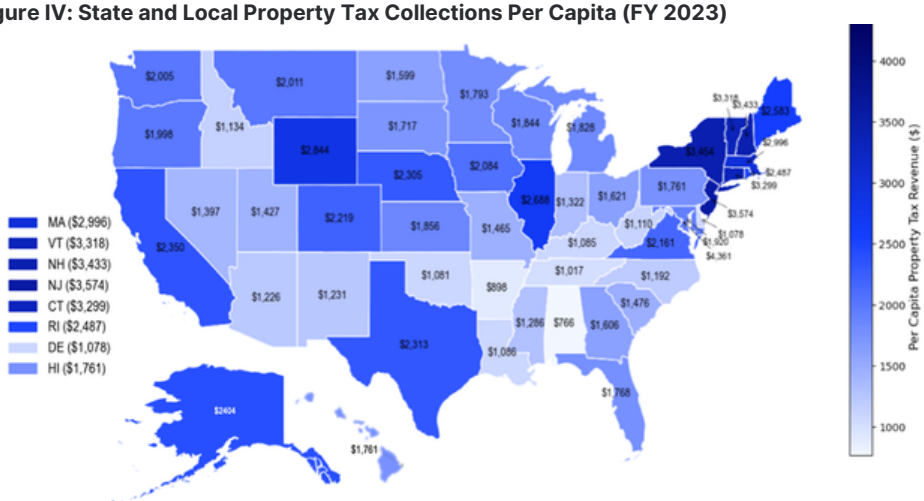
Even renters, who do not pay property taxes directly, bear the cost through higher rent. In supply-constrained rental markets, such as those in Bozeman and Missoula, property taxes are largely passed on to tenants. [Based on national data](#) and [adjusted for Montana's housing market](#), property taxes can account for at least 20% of the monthly rent.

Given a typical urban rental property with a tax-assessed value of $400,000 and an average property tax rate of 1.5%, the annual property tax payment would be $6,000. Assuming an 80%

pass-through rate of that payment to the renter, the yearly amount is $4,800. This $400 per month is 25% of an average monthly rent of $2,000. Montana may have even higher pass-through rates, particularly in markets with a limited property supply. Higher property taxes also increase businesses' operating costs, which can lead to higher consumer prices, lower wages, and less competitive local economies.

While Montana ranks sixth best overall in the Tax Foundation's 2026 State Tax Competitiveness Index, its property tax structure ranks 17th, indicating room for improvement. Figure IV illustrates how Montana levied $2,011 in state and local property taxes collected per capita in FY 2023.

Figure IV: State and Local Property Tax Collections Per Capita (FY 2023)



Notes: Sources are from U.S. Census Bureau, Annual Survey of State and Local Government Finances, 2023, U.S. Census Bureau Population Estimates, 2020 - 2024. Montana is not alone in exploring the elimination of property taxes. Other states include at least Florida, Illinois, Kansas, Nebraska, North Dakota, Oklahoma, Pennsylvania, South Carolina, Texas, and Wyoming.

This is higher than three of its four bordering states, with only Wyoming collecting more property taxes per capita than Montana.

Table I summarizes economic and property tax rankings for the 10 states currently considering eliminating property taxes. Population growth is the cumulative percentage change from 2000 to 2024, illustrating long-run demographic trends. CPI inflation is the Regional CPI-U, reflecting region-specific price changes over the same period. Employment growth refers to the cumulative nonfarm payroll job growth, indicating the labor market's performance. Property tax rank reflects each state's position in the Tax Foundation's 2026 State Tax Competitiveness Index, where 1 is the most competitive structure, and 50 is the least competitive.

Table I. States Considering Property Tax Elimination Comparison, 2000–2024

State	Population Growth	CPI Inflation	Employment Growth	Property Tax Rank
Florida	45.6%	82.5%	40.8%	20
Illinois	2.2%	72.5%	1.6%	41
Kansas	10.3%	72.5%	8.1%	26
Montana	25.8%	90.5%	34.4%	17
Nebraska*	17.0%	72.5%	15.8%	46
North Dakota	24.1%	90.5%	35.9%	6
Oklahoma	18.6%	82.5%	18.4%	11
Pennsylvania	6.5%	80.8%	7.9%	13
South Carolina	36.1%	82.5%	27.0%	40
Texas	49.4%	82.5%	49.3%	38
Wyoming*	18.9%	90.5%	22.9%	37

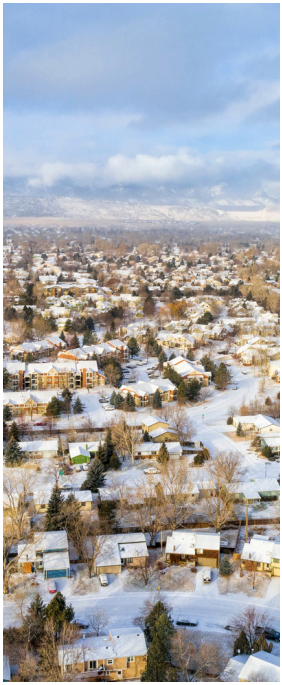
*Sources: Population growth from U.S. Census Bureau, CPI inflation from U.S. Bureau of Labor Statistics Regional CPI-U, nonfarm employment growth from U.S. Bureau of Labor Statistics Current Employment Statistics, property tax rankings from Tax Foundation's 2026 State Business Tax Climate Index. *Denotes states with ongoing legislative or ballot discussions about elimination.*

States with substantial population and employment growth—such as Texas, Florida, and North Dakota—are not necessarily those with the most competitive property tax systems. This highlights that tax mix and structure matter, not just raw rates. Montana has the opportunity to lead the country by pairing property tax elimination with strict spending limits and responsible tax redesign.

Lack of Transparency and Accountability

Montana's property tax system is fragmented across multiple levels of government, making the true burden opaque. Taxpayers rarely know which jurisdiction is responsible for increases. Progressive tiers, special penalties for second homes and short-term rentals starting in 2026, and patchwork exemptions have increased complexity without solving underlying tax problems.

Renters do not receive a property tax bill, though it is included in their rent. Property taxes silently escalate while undermining the state's competitiveness and household financial stability. By contrast, a pure consumption tax, such as a sales tax on final goods and services, is more visible to taxpayers, easier to control, and does not penalize investment or ownership in the same way that property taxes do today.



Recent changes to Montana's property tax system have only added complexity without addressing these core problems. The legislature adopted a tiered, progressive structure that taxes higher-value homes more heavily, while lowering the burden on lower-value properties. Beginning in 2026, second homes and vacation rentals will also be subject to higher rates than primary residences. While intended to address perceived inequities, this patchwork of tax policy has resulted in one of the most complex property tax systems in the country.

The Tax Foundation has criticized the approach, noting that layering progressive adjustments onto a fundamentally flawed tax only worsens transparency and accountability. Rather than piling on exemptions and brackets, Montana needs a comprehensive solution that limits government growth and moves away from property taxes entirely.

Economic Distortion and Ethical Issues

Property taxes distort housing and labor markets by reducing household mobility. Higher tax burdens may deter new residents from moving into an area and can force out long-time residents on fixed incomes when assessments rise sharply. These "lock-in" and "push-out" effects are costly (see below for more details).

For example, California's Proposition 13 has been shown to reduce property turnover, resulting in a constrained housing supply and distorted market values. In Montana's rural communities, where housing markets are thinner and replacement housing options are limited, such effects can be especially disruptive. Studies from the Texas Public Policy Foundation and the Lincoln Institute of Land Policy find that tax-induced immobility can suppress economic dynamism and exacerbate housing shortages.

Why Consumption Taxes Are Better

A broad-based consumption tax applied to final goods and services is more transparent, stable, and economically efficient. It taxes people based on what they consume, not on the value of the property they own. A sales tax on final goods and services can reduce the overall tax burden when paired with slower, if any, growth in government spending. By adjusting the tax mix away from recurrent property taxes, the state can shift the incidence of taxation in ways that lower the overall economic cost of raising revenue, enhance investment incentives, and increase mobility in housing and labor markets.

Transparency and Incidence

Consumption taxes are generally more visible to taxpayers than property taxes. They are collected at the point of sale and shown on receipts, thereby strengthening accountability. Property taxes, by contrast, are often embedded in mortgage escrow payments or rent, making the burden less transparent and less visible. Greater transparency can lead to increased taxpayer awareness and, in turn, greater resistance to excessive spending growth.

From a tax incidence perspective, economists often evaluate the progressivity or regressivity of taxes using the Suits Index. This measure ranges from –1.0 (highly regressive) to +1.0 (highly progressive), with 0 indicating a proportional tax burden relative to income. The index reflects the change in the final incidence of tax payments across income groups. For comparison, according to the Texas Comptroller's 2025 *Tax Exemptions & Tax Incidence Report*, the Suits Index for school district property taxes in Texas is –0.068, while the index for the estimated equity of sales and use taxes is –0.252. These figures indicate that both taxes are regressive when measured by annual household income, with sales taxes exhibiting greater regressivity under this methodology.

However, the Suits Index (and other measures of tax incidence) for property taxes does not incorporate the lock-in and push-out effects unique to property taxation:

- Lock-in effect: Higher property taxes discourage property transfers, reducing mobility, limiting housing supply, and restricting households from relocating for work or other opportunities.
- Push-out effect: When property taxes rise faster than incomes—particularly for retirees and fixed-income households—some owners are forced to sell or downsize, or risk losing their property, even if they have paid off their mortgage.

These effects are not captured in static annual income-based incidence measures but can significantly increase the long-term burden of property taxes on lower-income households. Over a lifetime, property taxes can function as a persistent claim on homeownership, with disproportionate impacts during periods of financial hardship.

When these dynamics are considered, the true incidence of property taxes is likely at least as regressive as, and potentially more regressive than, sales taxes. Unlike sales taxes, which are paid only when purchases are made, property taxes must be paid annually regardless of income or consumption, magnifying their impact when household resources are strained.

A similar Suits Index analysis for Montana's property taxes could provide valuable insight into comparative incidence. However, the necessary detailed microdata on household incomes and property tax payments are not currently available in a form that would allow such an estimate. Based on Texas's findings and the similarities in Montana's property tax system, property taxes impose a regressive burden—one that could be reduced by shifting to a primarily broad-based consumption tax.

Broader Economic Considerations

Consumption taxes are more transparent, less distortionary, and better connected to the average taxpayers' ability to pay for them annually or over time than property or income taxes. While annual tax incidence measures indicate that sales taxes are regressive in the short term while progressive over a lifetime, their economic effects are generally less harmful than those of taxes on assets, income, or productivity when combined with strict spending limits and economic growth.

Limiting a statewide sales tax on final goods and services is crucial to prevent economically harmful tax pyramiding, where taxes are applied multiple times along the production chain. This ensures that the full cost of the tax is visible to consumers and not hidden in higher production costs and economic distortions. Data from the Tax Foundation's 2026 State Tax Competitiveness Index and economic indicators show that states with no income tax or broader consumption tax bases—such as Tennessee, Texas, and Florida—outperform high-property-tax states in population growth, job creation, and overall fiscal health.

A Better Path Forward

Montana could employ a three-part strategy to eliminate State, City, County, and K-12 school district property taxes (excluding other districts', like special districts' property taxes and fees):

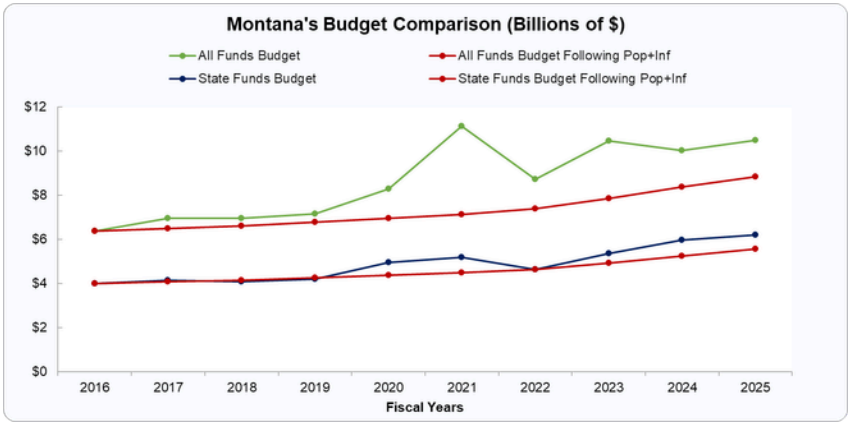
1. **Cap Government Growth.** Limit the growth of state and local budgets to less than population growth plus inflation, and dedicate the surpluses above this limit to reducing property taxes.

This approach addresses the root cause of taxation: the growth of government spending. Establishing hard caps on government growth would rein in excessive spending and reduce the cumulative tax burden for everyone over time. The most effective and proven limit ties annual total budget growth to a rate below the sum of population growth and inflation. This formula aligns spending with the average taxpayer's ability to pay for it and helps curb the runaway growth of government expenditures. The approach would ensure surpluses are used for tax relief rather than new, permanent spending.

State Budgets

According to Americans for Tax Reform's Sustainable Budget Project, from FY 2016 to FY 2025, Montana's state funds and all funds — including federal and state funds — budget grew cumulatively by more than the increases in population growth plus inflation (See Figure V). This excess cumulative annual cost to Montana taxpayers amounts to $3.0 billion in state funds and $13.8 billion over the past decade.

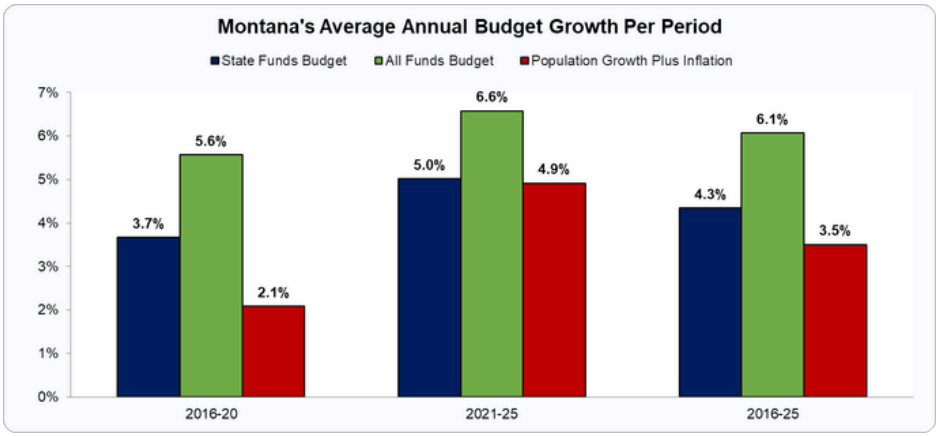
Figure V. Montana's Budget Comparison



Source: Americans for Tax Reform (ATR), The Sustainable Budget Project: Overview of Montana, 2025..

Figure VI illustrates the problem over time. Over the entire 2016–2025 period, the State Funds annual budget increased by an average of 4.3%, and All Funds spending rose by 6.1% annually, compared to just 3.5% for population growth plus inflation.

Figure VI. Montana's Budget Comparison



Source: Americans for Tax Reform (ATR), The Sustainable Budget Project: Overview of Montana, 2025.

These excessive spending trends underscore the need for a firm constitutional spending cap on the state budget to alleviate the burden on taxpayers and leave more tax revenue for tax relief.

Local Budgets

Many Montana local governments are currently growing their budgets at a rate significantly faster than population growth and inflation, thereby excessively burdening their taxpayers. **Table II** from Frontier Institute's FY 2025 Real Local Budgets Report illustrates the overall growth in budgets for Montana's eight most populous cities and counties compared with population growth plus inflation from fiscal year 2015-2024.

Table II: Tracking Trends in Local Government Budgets in Montana

Tracking Trends: FY 2015-2024		
	Budget Growth	Spending Increase Over Pop + Inflation (+/-)
City		
Kalispell	209.4%	161.57%
Bozeman	188.7%	140.85%
Hamilton	132.0%	84.15%
Missoula	77.3%	29.47%
Helena	62.5%	14.68%
Great Falls	52.8%	5.04%
Billings	35.9%	-11.88%
County		
Missoula	155.2%	107.4%
Gallatin	124.7%	76.9%
Ravalli	106.6%	58.8%
Yellowstone	69.3%	21.5%
Lewis & Clark	63.7%	15.9%
Cascade	43.2%	-4.6%
Flathead	23.9%	-23.9%
Butte + Silver Bow	6.1%	-41.7%

While not all local governments grew their budgets excessively, many did during the past decade. As detailed earlier, this excessive spending growth at the local government level has resulted in overall city and county property tax growth that far exceeds the average taxpayer's ability to pay for it.

2. **Taxpayer Protection.** Guarantee that any sales tax in Montana can be used only to replace property taxes.

This approach safeguards the public's trust that sales taxes will never be used to increase the tax burden or expand government. Under the following proposal, sales taxes will only be a tool for tax relief. The approach will also prevent sales tax swaps from being gamed to increase the tax burden. And it will maximize the effectiveness of tax swaps as a tax relief strategy by preventing funding from being diverted to other means.

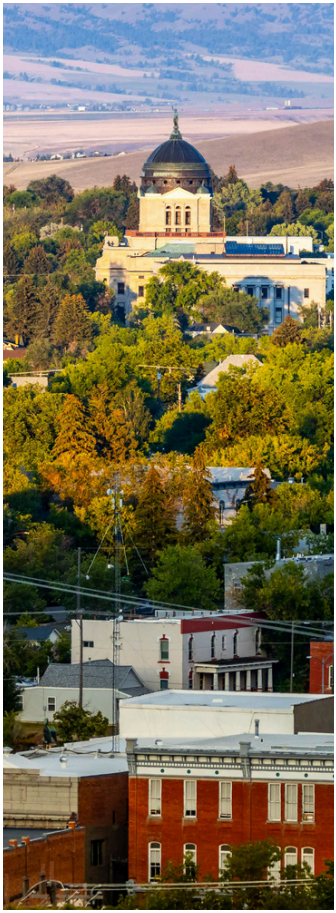
3. **Responsible Tax Elimination.** State and Local Governments responsibly replace property taxes while ensuring continuity of essential government services.

This approach outlines three components of responsible tax elimination.

- **Budget neutrality.** Governments that eliminate property taxes must ensure no corresponding change in spending levels for programs or services currently funded by property taxes. Decisions to increase or even better decrease funding must be made separately from decisions to change revenue sources.

- **Sound Tax Policy.** Replacement taxes are on final consumption, broad-based, transparent, flat, and simple. Avoid special exemptions and carve-outs that distort the market, and steer clear of hazardous tax pyramiding schemes, such as value-added taxes.

- **Protect Local Control:** Changes must preserve local autonomy and not make local governments dependent on state tax revenue.



Utilizing this 3-part strategy, this approach offers five proposals to eliminate State, City, County, and K-12 School District property taxes in Montana:

1. **Constitutional Amendment: Cap The State Budget**

Constitutional Amendment Proposal:

Budget Limitation: The growth of non-federal state expenditures over a biennium may not exceed the average growth rate of state population growth plus U.S. chained CPI inflation over the past 3 years. When revenue for a biennium exceeds the budget limitation, the excess tax revenue shall be returned by reducing taxes in the next biennium.

This amendment proposal is modeled after the existing state expenditure limitation in Section 17-8-106 MCA, which is not currently in effect in Montana but is referenced in legislative fiscal analysis.

2. **Constitutional Amendment: Taxpayer Protection**

Constitutional Amendment Proposal:

Section 16. Limitation on sales tax or use tax rates. *The rate of a general statewide sales tax or use tax may not exceed 4%. Statewide sales tax or use tax revenue, less administrative costs, must be used solely to reduce property taxes. No increase in property taxation shall be authorized, enacted, or implemented if such increase is offset, supplanted, or mitigated, in whole or in part, by the revenue dedicated under this section.*

3. **Legislation: Eliminate K-12 Public School District Property Taxes**

With the preceding constitutional amendments in place, the state legislature could implement a 4% statewide sales tax that would generate adequate revenues to replace all state and local K-12 school district property taxes. This reform would eliminate about 55% of everyone's property tax bill. State fiscal analysis estimates that a broad-based 4% state sales tax would generate approximately $1.3 billion annually, sufficient revenue to fully replace the current total of nearly $1.3 billion in local and statewide K-12 school district property taxes. After that, sales tax revenue growth would likely outpace population growth plus inflation, creating additional tax revenue for further state tax relief.

This reform would require the legislature to separately redesign the state-determined funding formula for public school districts. However, one advantage of this new framework is that it would enable a simpler and more equitable design for K-12 public school district funding.

The state would collect a 4% statewide sales tax on sales transactions and equitably and efficiently allocate the funds to local K-12 public schools, thereby conforming to the state's constitution. This approach would eliminate school district disparities based on local property

wealth, eliminating the need for extremely complicated equalization methods. It would also help with efforts to provide universal education savings accounts, so the money follows the student to the schooling of parents' choices instead of being redistributed throughout the school district system.

4. **Legislation: Eliminate Remaining State Property Taxes**

Given constitutionally-limited state budget growth, Montana could direct surplus revenue towards eliminating about $30 million in remaining statewide property taxes: the six mills levied for the University System and the 1.5 mills levied for vocational and technical education that apply to property in Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark counties.

Eliminating the state's six mills requires no action from the state. The six mills were last authorized in a 2018 voter referendum and will expire on December 31, 2028, unless Montanans take further action. The state legislature could allow the six mills to expire and then decide whether to replace the funding with surplus income tax revenue. The 1.5 mills for vocational and technical education could be eliminated, and the revenue could be replaced through surplus income taxes.

5. **Constitutional Amendment: Eliminate Local Government Property Taxes**

Constitutional Amendment Proposal:

*A) Local government taxing jurisdictions that meet the **growth limitation** may individually or collectively levy sales taxes or use taxes, but the tax collections may only offset property taxes until property taxes are eliminated.*

*B) **Growth Limitation:** Non-federal revenue collection for a jurisdiction must not exceed the average rate of jurisdiction population growth plus inflation during the past 3 years.*

This proposal would enable fiscally responsible cities and counties the option to eliminate property taxes by limiting their budget growth and using local-option sales taxes to gradually replace property taxes over time. This structure would encourage Tiebout competition, where residents and businesses "vote with their feet" by relocating to jurisdictions that offer the best balance of low taxes and high-quality services. Localities that maintain higher tax burdens would lose residents and investment, pressuring them to reform.

The language of the proposal would also explicitly allow local governments to form local tax compacts — agreements among municipalities and counties to harmonize tax bases and rates, thereby reducing border shopping while preserving healthy competition. This would theoretically enable all city and county governments in Montana to join together in a statewide local tax compact to assess a unified local-option sales tax, which would be optimal for predictability and efficiency.

This proposal does not address, and therefore not included in our analysis, single-purpose local tax jurisdictions — special districts such as a fire district, water district, etc., — that technically exist separately from City/County governments and are often funded by special taxes outside of the standard mill-based tax system, such as a lighting district that charges each property a set, flat amount.

Modeling Future Possibilities

The proposals described above rest on a straightforward premise: Montana can responsibly eliminate property taxes by pairing a strict limit on government spending growth with a broad, consumption-based tax structure.

To examine this, we use two modeling tools.

1. The first is the Montana Legislative Fiscal Division's Sales Tax Dashboard, which estimates taxable consumption in Montana and how much a static sales tax would raise at different rates.

2. The second is the migration model from the report Lower Taxes, Better Texas by Antoni-Ginn-Quintero, which measures how state tax burden changes dynamically influence domestic migration and income flows.

Together, these models provide a comprehensive, conservative view of whether the numbers add up and how households, businesses, and workers would respond to a shift away from property taxation.

Results from the LFD Sales Tax Dashboard and Migration Model

The LFD dashboard uses BEA consumption data adjusted for Montana's exemptions. It estimates that a static sales tax base of $32.2 billion, excluding groceries, gas, housing, health care, and similar necessities, with a 4% statewide sales tax rate could collect about $1.3 billion, equal to replacing K–12 school property tax collections. It also reports that 86.7% of taxable sales come from residents and 13.3% from nonresidents, resulting in Montana residents paying $1.15 billion toward a statewide 4% sales and use tax. Non-residents of Montana would pay the remaining $153.5 million. These numbers are used to calculate local option tax rates.

Dynamic Estimates from Migration Model

The migration effects from state-local tax changes rely on a dynamic model based on the work of Antoni-Ginn-Quintero, which uses years of IRS, Census, BEA, and BLS data to estimate how taxpayers respond to changes in state tax burdens. The model's key finding is that property taxes have the strongest negative effect on net migration among all major tax types, whereas sales taxes have a lesser impact. This result aligns with post-2017 behavior, following the SALT deduction cap, which made property taxes more painful for taxpayers in many states.

Applying the model's estimates to Montana's proposed tax redesign from K-12 school property taxes to a 4% sales tax rate with a base of $32.2 billion results in an expected net in-migration

of 14,000 residents and a gain of $1.1 billion, or 1.57% increase, to $68.7 billion in gross state product. These results are conservative, as the positive economic effects are likely larger. These results are consistent with the experience of other states with lower property tax burdens, which experienced more accelerated income and population growth. We use the 1.57% increase in expanded gross state product to broaden the estimated sales tax base in the LDF's static analysis by $0.5 billion, from $32.2 billion to $32.7 billion, on a dynamic basis. This expanded tax basis, helped by positive dynamic effects, would bring the revenue-neutral static statewide sales tax rate of 4% down to a dynamic rate of 3.94%. We consider both of these rates in the scenarios below.

Maximum Implementation Scenario

Montana's property tax and fee burden is $2.6 billion in 2024. In this proposal, the state, county, city, and K–12 districts collect $2.2 billion, or 85% of the total. In the maximum scenario, we assume that policymakers adopt this proposal and fully implement it by FY 2026. Property tax growth is limited to a maximum of population growth plus inflation, and every city and county participates in a statewide local-option sales tax compact. Sales tax revenue collection estimates are from the Legislative Fiscal Division's 4% sales tax model to eliminate K-12 property taxes.

Under the plan, $2.2 billion is replaced as follows:

- $1.3 billion from a 4% static statewide sales tax or 3.94% dynamic statewide sales tax that replaces K–12 school property taxes
- $30 million from surplus state income tax revenue covering remaining statewide mills
- $59 million from reduced city and county property tax collections, as revenue growth is capped
- Remaining $863 million from a unified local-option sales tax of 2.64%, resulting in a static state and dynamic local-option sales tax rate of 6.64% or a dynamic state and dynamic local-option sales tax rate of 6.57% adopted under the statewide compact among local governments

Together, these replacements, with a combined state and local sales tax rate of at most 6.64%, result in $0 in state, county, city, and K–12 property taxes. A mix of sales tax revenue, surplus income tax revenue, and restrained spending replaces current property tax dollars to fund limited government spending. Depending on how much responsible budgeting happens at the state and local levels, this rate could be even lower.

Partial Implementation Scenario

The partial scenario uses the same framework and assumptions but allows local governments to eliminate only residential property taxes while retaining taxes on business and industrial property. This narrows the tax base and shifts the burden of funding government spending on renters and businesses.

Starting from $2.2 billion in property taxes collected, excluding other local governments:

- $1.3 billion in K–12 school property taxes are replaced by the 4% static statewide sales tax
- $30 million in statewide mills are covered by surplus income tax revenue
- $59 million in city/county property taxes are avoided through budget-growth limits
- $516 million in only city/county residential homestead property taxes are replaced by a 1.30% dynamic local-option sales tax under a statewide compact of local governments. This would make the static state and dynamic local-option sales tax rate of 5.30%, or the dynamic state and dynamic local-option sales tax rate 5.24%.

Under this scenario, residential property taxes are eliminated with budget growth limitations and a state-local sales tax rate of at most 5.3%. Roughly $295 million in business and industrial property taxes remain in place, meaning renters, employers, and consumers pay for it. That provides homeowners with complete relief while giving cities and counties time to pursue broader reforms later, if they choose.

The LFD model estimates that a 4% statewide sales tax would raise nearly $1.3 billion, which aligns closely with the annual K–12 school property tax levy identified in the Governor's Property Tax Task Force Report. Because the LFD model calculates a static revenue estimate for a 4% statewide sales tax rate, we scale the sales tax base proportionally to estimate revenue at other rates, while accounting for economic growth dynamics. This results in a broader sales tax base for calculating the 2.64% local-option sales tax rate required to eliminate all remaining city and county property taxes under the maximum scenario, and in a 1.30% tax rate needed after dynamic effects, with a larger sales tax base, to eliminate residential property taxes under the partial scenario.

These computed rates under the maximum and partial scenarios highlight why the Plan remains practical and keeps local sales taxes far below levels seen in most states.

How Household Impacts Are Estimated

Household impacts use median income estimates from the U.S. Census and detailed spending patterns from the Consumer Expenditure Survey. To understand how these changes affect ordinary families, we model a typical four-person household earning $111,516 — the median income for similarly sized households according to Census data. Households at this income level generally spend at least 40% of their income on consumption, equal to $44,600 annually. But excluding groceries, housing, and other tax-exempt items under the plan, only about 25% of total spending becomes taxable — $11,150. Applying the combined sales tax rates — 6.64%

in the maximum scenario — produces annual sales-tax payments of $745, much lower than the roughly $2,723 property tax bill on a median-valued Montana home.

Home-value data show that typical home values have risen by 66% over four years, confirming that rising assessments contribute to higher property tax burdens. The shift to a consumption-based approach in the proposal reverses this pressure and yields net savings of nearly $2,000 for a typical household.

How Business Impacts Are Modeled

Commercial property taxes are modeled using statewide property-tax records and typical assessed values. For example, a small business owning a $300,000 property faces an effective tax rate of about 1.07%, or $3,212 annually. Using BEA's input-output framework, the model assumes the business has approximately $10,000 in taxable retail purchases per year. Under the plan's sales tax rates, this results in tax payments of $560, depending on the scenario, yielding thousands of dollars in net savings. Because many business inputs are purchased wholesale and are not subject to retail sales taxes, these estimates are intentionally conservative.

Under the plan, the maximum sales tax scenario (6.64% rate) results in over $2,500 in annual savings for the average small business. At the lower rate (5.3%) for partial implementation, the same small business stands to save over $2,600 due to the lower combined state and local sales tax rate. However, they would still be on the hook for a smaller property tax payment. Even under conservative assumptions, the typical small business sees thousands in annual relief, money that can be reinvested in payroll, equipment, or growth. This will drive actual, sustainable economic growth, as the business can make key investments in labor and capital.

Both the maximum and partial implementations eliminates most property taxes for everyone (maximum) or eliminates them for all homeowners (partial). Second, Montana could shift from unpredictable assessments to a stable, consumption-based model, expand its tax base to include non-residents and visitors, reduce the tax burden as a share of personal income, and ensure families, renters, and businesses come out ahead financially. The results demonstrate that property tax elimination is not only conceptually sound but also fiscally achievable and delivers meaningful relief to Montana taxpayers.

The Tax Foundation's State Tax Competitiveness Index reinforces this interpretation. Indiana, for example, maintains a 7% sales tax yet ranks among the most competitive tax climates in the country. Montana, currently ranked 6th, would remain solidly within the top tier even with a combined 6.64% tax rate under the maximum scenario.

Conclusion

Property tax reform is becoming a national issue because families increasingly question whether they truly own property when the government can tax it forever. Rising property taxes undermine housing affordability, raise rents, increase business costs, discourage investment, and weaken the security that homeownership is supposed to provide.

Montana offers a useful case study for the country. Since it does not currently have a broad statewide sales tax, Montana can evaluate a cleaner redesign than many states: limit government spending growth, replace K–12 school property taxes with a constitutionally

capped 4% statewide sales tax on final goods and services, and allow cities and counties to eliminate their own property taxes through local-option sales taxes, compacts, and surplus buydowns under strict spending limits.

The modeling in this report shows that this framework is fiscally achievable. A broad 4% statewide sales tax could raise about $1.3 billion, enough to replace K–12 school property taxes. Under the maximum implementation scenario, a combined state and local sales tax rate of roughly 6.6% could eliminate most state, city, county, and K–12 property taxes while keeping Montana competitive and improving incentives for households and businesses.
The most important lesson is that tax reform must begin with spending restraint. Without firm limits, property tax relief becomes temporary. With limits, surpluses can be used to reduce tax rates, local governments can be held accountable, and taxpayers can receive lasting relief.

Montana should not simply rearrange the tax code. It should lead a national movement away from taxing ownership and toward a more transparent, less burdensome, and more pro-growth system. By pairing fiscal discipline with structural reform, Montana can restore true ownership, improve housing affordability, strengthen business investment, and offer a model for states across the country.

Bottom line: the choice is whether to keep a tax that makes families rent their homes from the government forever, or build a system that lets people own property, invest, work, and prosper.

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