

# Sales Tax In Montana:

## Pros, Cons, and Options

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# A Story About Two Beautiful States



# Learn From Others' Experience

## California 1970s

- Migrants and tourists seeking paradise drive higher property value and property taxes.
  - Voters demand action.

## Montana 2020s

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# Learn From Others: **State Lawmakers Engage**

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- **State Lawmakers Do Nothing**
  - **It's a Local Issue**

## Montana 2020s

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- **State Lawmakers Pass Major Property Tax Reform**
  - **Shifts but does not reduce total taxes.**
  - **Most primary residences see reduction.**

# Learn From Others: **How Not to Do Sales Tax**

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- **Voter Initiative Slashes Property Taxes 60%, Caps Future Growth.**
  - **Let the legislature figure out the replacement.**
- **Legislature Shifts Sales Tax to Cities/Counties.**
  - **Cities increase local option sales taxes and fees.**
  - **Most remaining property tax dedicated to schools.**
  - **Sales tax has a narrow base (many exemptions).**

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# Learn From Others: **Figure Out Alternative First**

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- **Property Tax Initiative?**
- **Sales Tax?**

# Arguments In Favor Of A Sales Tax

- Taxing Nonresidents
  - Tourism states often rely heavily on sales tax.
- Reduces Reliance On Property Tax
  - Stability: “a three-legged stool”
  - Equity: Households differ in income, consumption, and property wealth.
- Consumption Taxes Can Support Economic Growth
  - No tax on savings and investment.
- Equity for Bricks and Mortar Retailers

# Arguments Against A Sales Tax

- Regressive
  - Low-income households pay a higher share of their income in sales tax due to low saving & high spending on taxable goods.
- A Third Major Tax Could Increase Government Spending
  - Most proposals use sales tax to reduce other taxes.
- Limited Revenue Generation
  - Constitutional rate cap & taxable sales base erosion.
  - Legislative Fiscal Division Sales Tax Calculator: \$1.3 billion in typical configuration.
  - Property and Income Taxes: Each collect about \$2.5 billion per year.
- Culture and State Identity
- Harms Certain Businesses, Could Reduce Tourist Spending



No Sales Tax Is A Competitive Advantage  
For Certain Montana Businesses

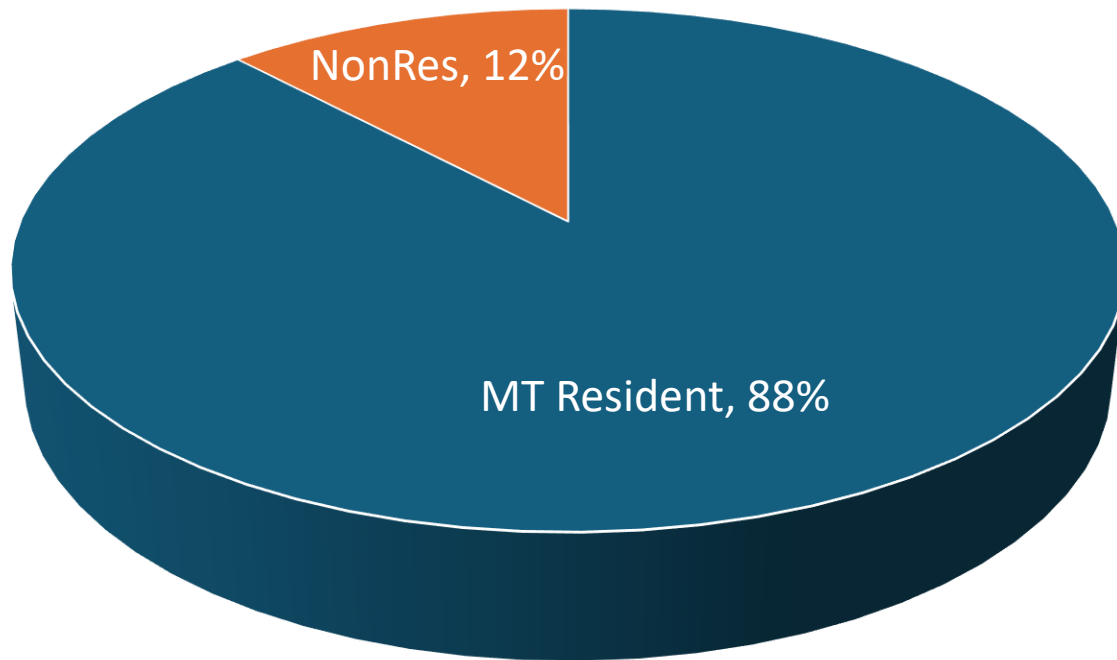


Are those nonresident AI people angry and shocked enough to stop buying in Montana?

# Comparing Sales and Property Tax: Share of Tax Paid By Nonresidents

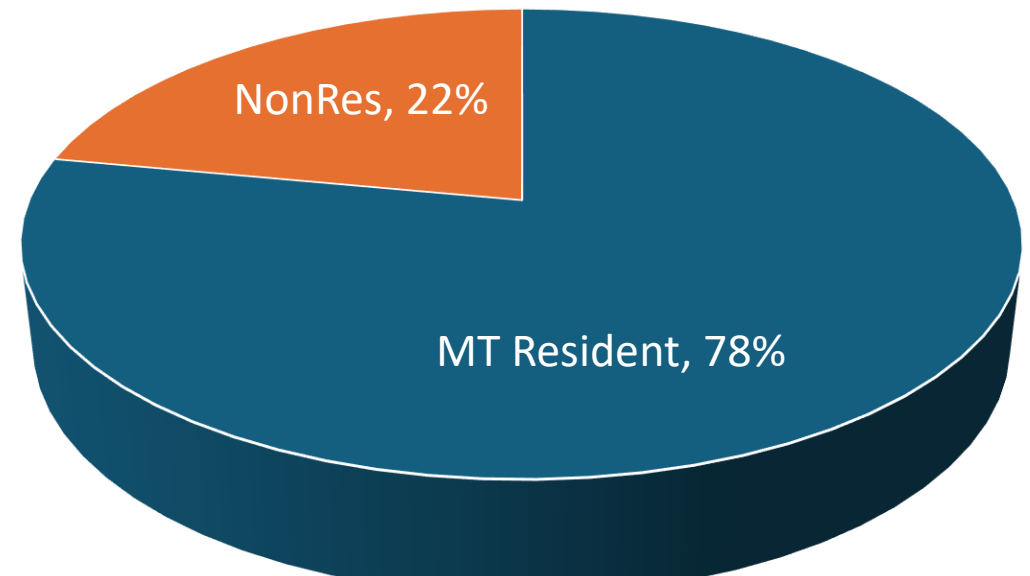
## Sales Tax

Legislative Fiscal Division Estimate



## Residential Property Tax

MT Dept of Revenue: 2025 Tax Payments

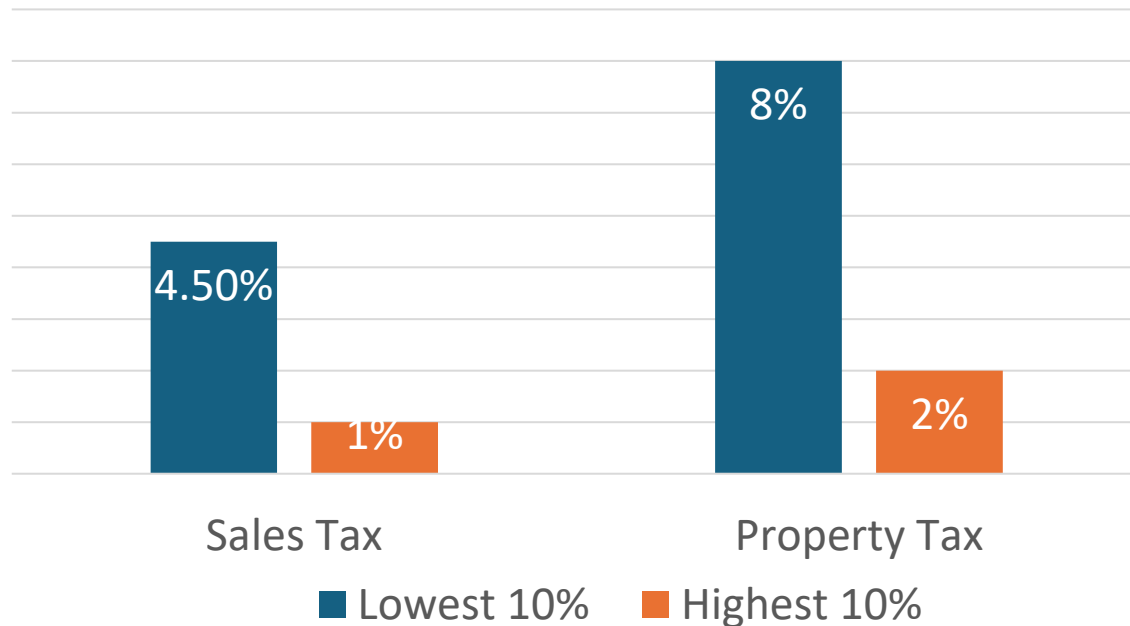


Note: NonRes indicates tax bill is sent to an out-of-state address. Out-of-state addresses make up 34% of total residential taxable value, but share of tax payments is lower as local tax rates vary.

# Comparing Sales and Property Tax: Regressivity

## In an Average State, Sales Tax and Property Tax Are Similarly Regressive

Tax Payments As A Share of Income For Lowest 10% and Highest 10% of Household Income



## But Montana's New Property Tax Law Has Tiered Rates

2026 Tax Rates for Primary Residences and Long-term Rentals

Tax Rate	Assessed Value
0.76%	<\$378,000 (up to statewide median)
0.90%	\$378,001 to \$756,000 (median to 2x median)
1.10%	\$756,001 to \$1,511,999 (2x to 4x median)
1.90%	≥\$1,512,000 (4x median or greater)

Source for Regressivity Graph: Minneapolis Fed, 2025. *Fiscal Productivity of the U.S. Federal and State Governments.*

# More Limited Sales Tax Alternatives to a General Statewide Sales Tax

- Local Option Sales Tax
  - Equity and border problems, discussed later in local presentation.
- Tourism Tax
  - Sales tax targeted towards tourist spending.
  - Existing Resort Tax:
    - Local-option sales tax limited to small communities with tourism dependent economies.
    - Up to 4% local sales tax on lodging, restaurants/bars, recreation facilities, luxury retail.

# Montana Visitors Spending Compared to U.S. Average

Source: Montana ITRR and U.S. BEA

	Montana 2024 visitor spending (millions \$)	MT visitor spend share	Avg. U.S. tourist
Accommodations	\$1,179	24%	24%
<b>Gasoline</b>	\$1,120	<b>23%</b>	<b>12%</b>
Restaurant/Bar	\$ 837	17%	21%
Auto rental	\$ 183	4%	4%
<b>Shopping</b>	\$ 532	<b>11%</b>	<b>23%</b>
Entertainment/Recreation	\$ 452	9%	9%
Other/Groceries	\$630	13%	8%
<b>Total</b>	<b>\$ 4,933</b>		

# Montana Visitor Spending: Key Findings

- Nonresident Spending Is Highly Seasonal
  - 48% of Nonresident Spending in 3<sup>rd</sup> quarter (July, August, September).
  - About 60% of spending is June to September.
- Montana Visitors Are Not Big Retail Spenders
- About Half of Montana Nonresident Spending Is On Two Items: Lodging and Gasoline
  - Both Already Have Specific Taxes That Can Be Adjusted

# Lodging and Gasoline Taxes: Montana Compared to U.S. Averages

## Lodging Tax

- Montana: 8% to 12% (resort)
  - + TBID up to \$4 per night in some cities.
- U.S. Average: 14.2%
  - Mostly local taxes in most states.
- Montana Does Not Have Local Lodging Tax.
  - Resort Tax (10 small tourist areas)
  - Tourism Business Improvement District (TBID) fees.

## Gas Tax

- Montana's Gas Tax Is About Average
  - 33 cents per gallon.
- Credit card data shows 25-30% of summer gas sales are to nonresidents. (Source: Visa Destination Insights / Montana Department of Commerce - Research & Information Services)
  - Visitor survey data suggests it could be higher.

# Conclusions

1. General Sales Tax in Montana: Is it Time?
  - As a full replacement of property tax: No
  - To diversify revenues, reduce other taxes: Maybe...
2. Local Option or Tourist Tax? Consider two specific taxes
  - Local Option Lodging Tax
  - Gasoline Tax: Seasonal increase (June-September)