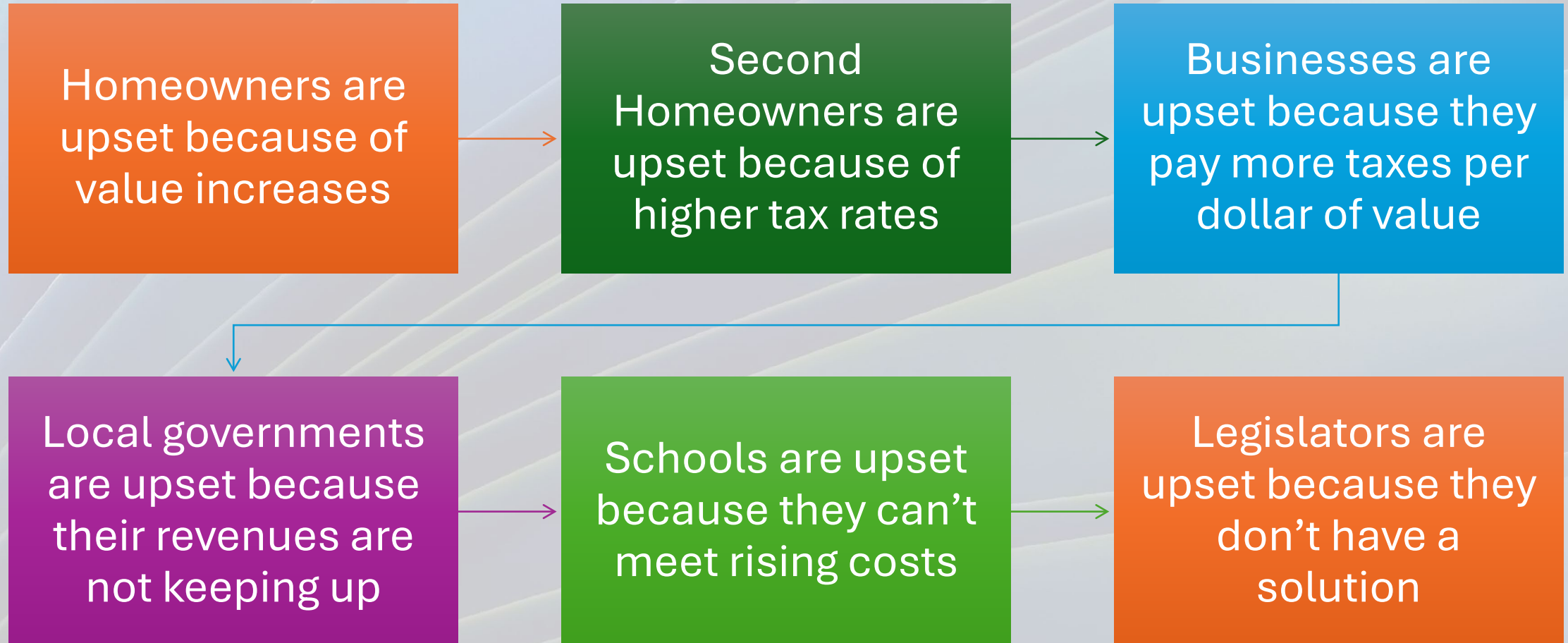




Can We Learn From History?



Why Are We Talking About Sales Tax



Why are Homeowners upset?

Homeowners see their values and taxes exceeding their ability to pay

Outside economic pressures are driving home values.

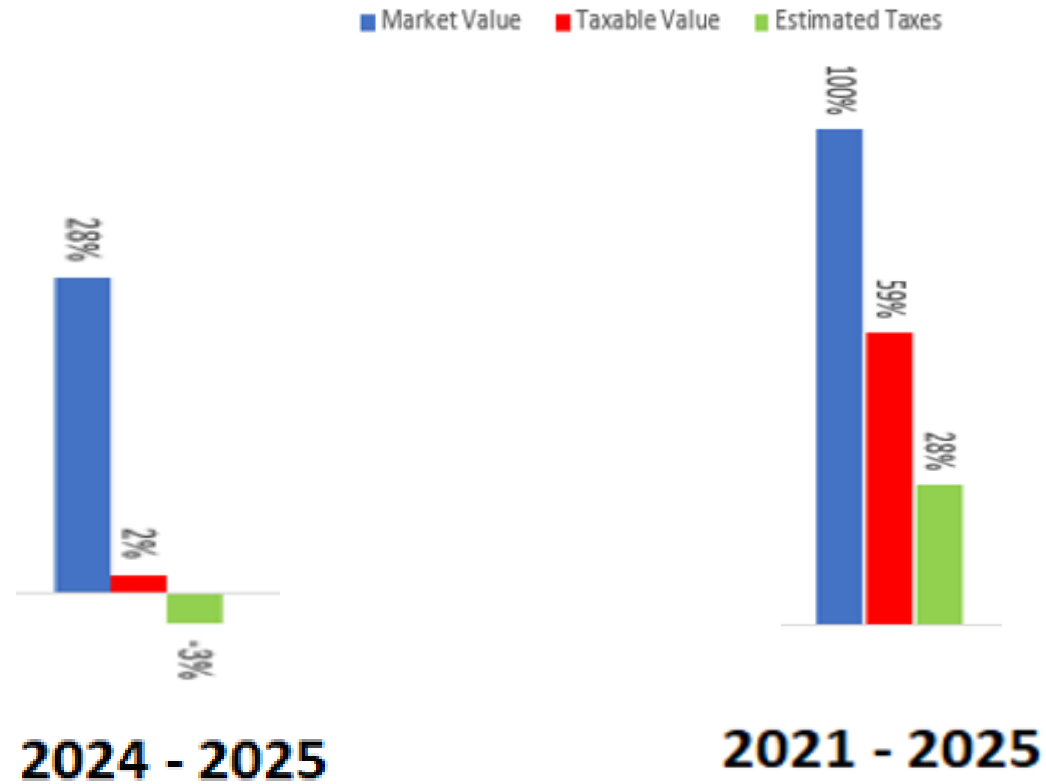
Significant tax increases on long-held second homes make them unaffordable

Montanans on fixed incomes are struggling

RESIDENTIAL PROPERTY NOT FIXED

BY LEGISLATION

Market Value, Taxable Value, and Taxes Paid

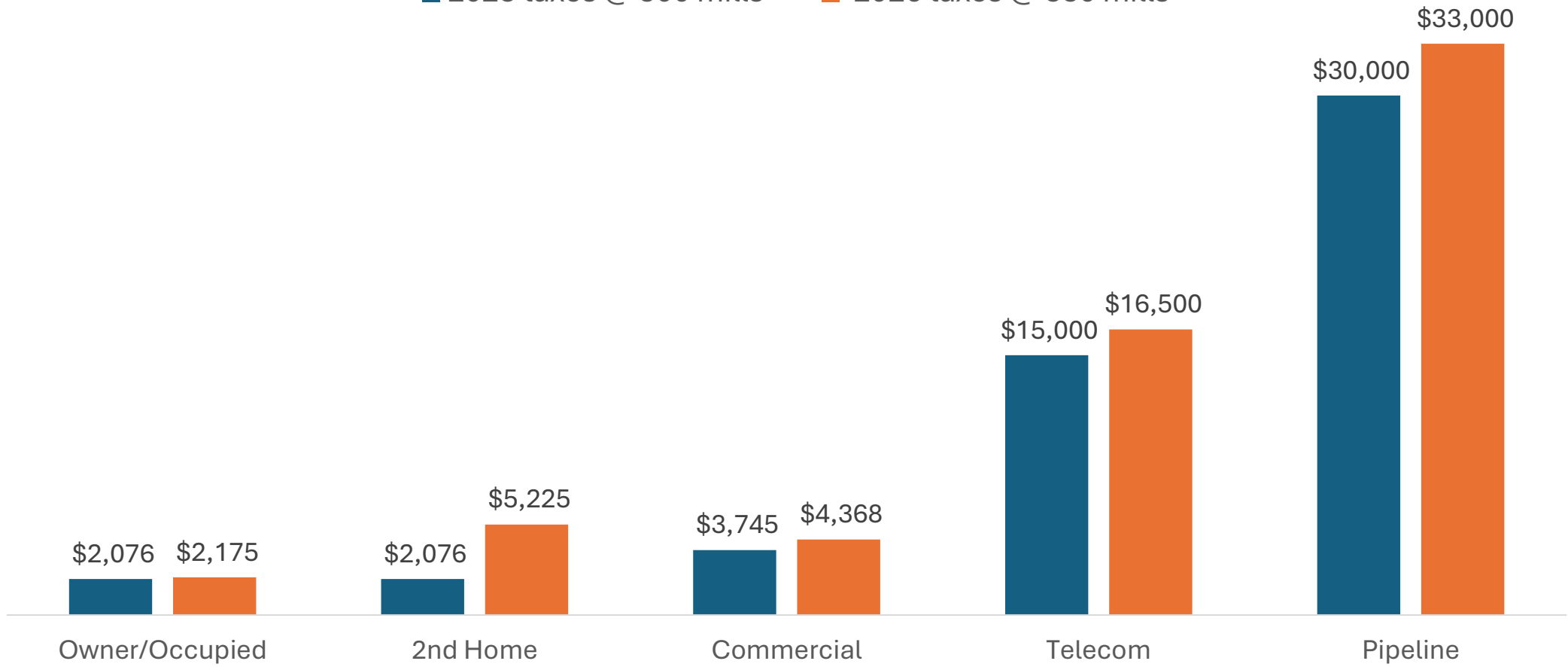


Why are Business Upset

- Their property values and taxes are also going up
- Not all taxes can be passed through to customers
- Businesses pay multiple times the taxes per dollar of value than residential property does.
- Business tax rates are from 2 to 16 times the residential tax rate

Taxes per \$500,000 of Market Value

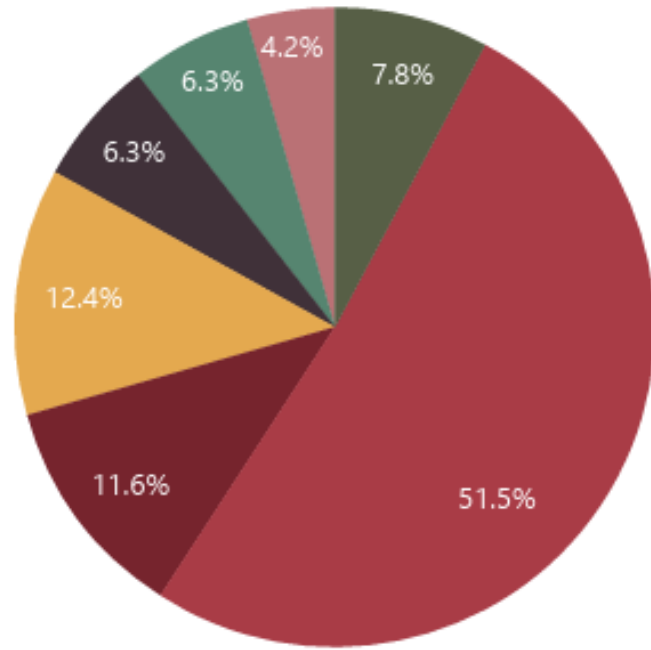
■ 2025 taxes @ 500 mills ■ 2026 taxes @ 550 mills



Why are government entities upset?

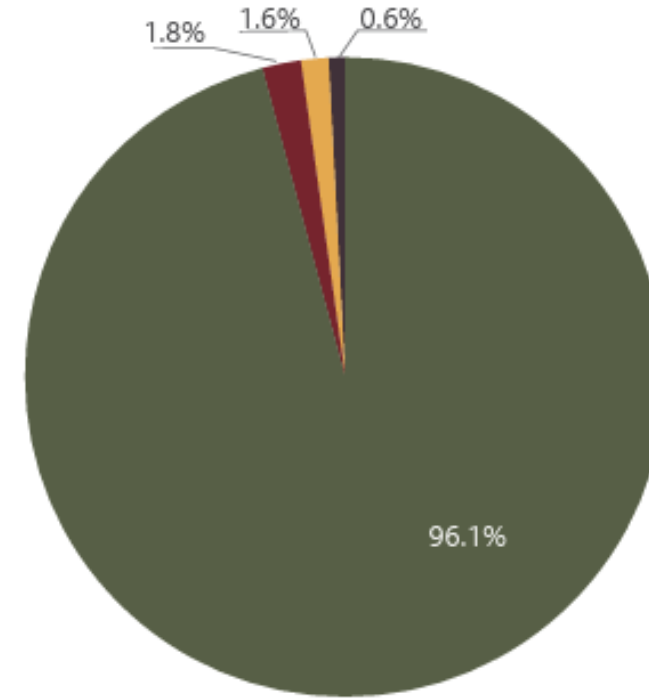
- Property taxes are their main source of tax revenue
- Taxpayers are becoming more resistant to approving tax increases
- State policy leaders are pointing the finger at local governments as the cause of increased property taxes
- Other revenue sources are not available due to restrictions in law.

Figure 2.12 State Taxes in Montana FY 2022



- Property Tax
- Motor Vehicle Registrations
- Severance & Other Taxes
- Individual Income Tax

Figure 2.13 Local Taxes in Montana FY 2022



- Sales & Excise Taxes
- Motor Fuel Taxes
- Corporate Income Tax

Montana 's Flirtation with a Sales Tax

- Sales tax proposals have surfaced many times over the last 50 years
- Some proposals have been placed before the voters
- Most proposals don't survive the Legislature
- Montana does have selective sales taxes
- Resort towns, cities and resort areas have limited sales taxes

Montana 's Flirtation with a Sales Tax

HISTORIC SALES TAX ACTIONS

YEAR	TITLE	SUBJECT	ACTION	RESULT
1971	R68	SALES TAX	REFEREMDUM	FAILED 2-1
1993	LR 111	SALES TAX	REFERENDUM	FAILED 3-1
1994	CA 27	LIMIT ON TAX	REFEREMDUM	PASSED
1999	SB 525	SALES TAX	SENATE TAX COMM.	FAILED
2003	SB 407	TOURISM TAX	AMMENDED / LEG.	BECAME LAW
2017	HB 620	VALUE ADDED TAX	HOUSE FLOOR	FAILED 18-82

1971 Sales Tax Referendum

- The Legislature was called into two special sessions in the spring of 1971
- A referendum, R68, was prepared by the second special session
- R68 was placed on the ballot in November 1971
- If the referendum passed, a sales tax and 10% surcharge went into place
- If the referendum failed, the 40% surcharge took effect

1971 Sales Tax Referendum

- Interest groups spent the summer influencing voters
- Proponents were business organizations, businesses, and the Republican Party
- Opponents were led by the Democratic Party and labor organizations.
- Voters rejected the sales tax proposal 2 to 1.

The next attempt 1993

- In 1993 the State again faced a fiscal problem
- Income tax revenues were not keeping up
- Surcharges on taxes were expiring
- The State had lost a school funding suit and needed to put more money into the K-12 school system.
- Candidates for Governor in 1992 both were amenable to considering a sales tax.

1993 Sales Tax Referendum

- The 1993 Legislature created two proposals.
- Senate Bill 235—LR 111, a sales tax, was referred to the voters June 8, 1993.
- SB 289—CA 27, a limit on the sales tax rate, was also referred to the voters Nov. 8, 1994.

LR 111: 1993 Sales Tax Referendum

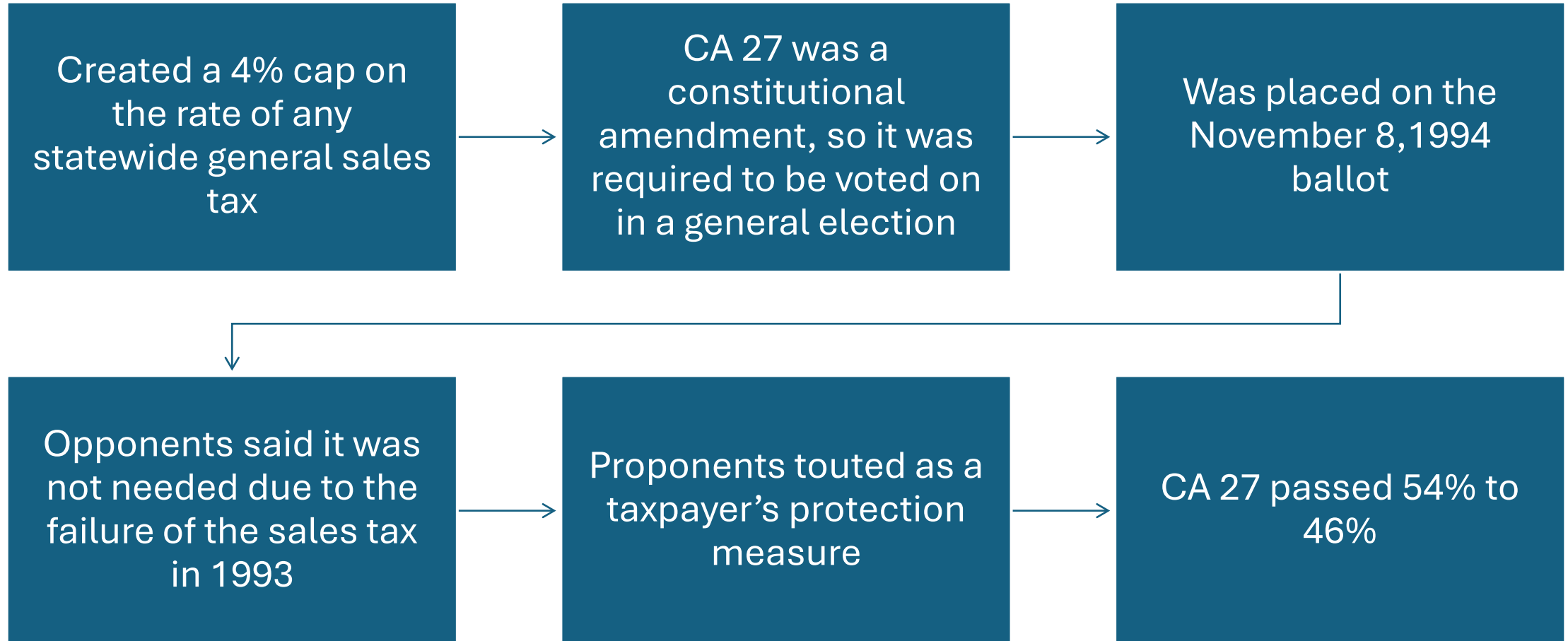
- **New Tax Revenue**
- 4% sales tax on goods and some services
- Increase electrical energy tax revenue
- **Tax Reductions**
- Reduced property tax, individual income tax, and corporate income tax.
- **Increased State school funding**

	1994-95 biennium impact (in millions)
Impose a 4% general sales tax	\$310
Reduce individual income taxes	(124)
Reduce corporation income taxes	(3)
Reduce property taxes	(125)
Increase state support of school funding	(48)
Increase electrical energy tax revenue	75
Net available to reduce state deficit	\$85

LR 111

- LR 111 was placed on a special election on June 8, 1993
- Proponents were Republicans, business groups, Montana Education Assoc.
- Opponents were Democrats, Labor organizations, and conservative thought leaders
- The proposal was defeated 3 to 1

CA 27 CONSTITUTIONAL CAP



1999 Sales Tax (SB 525)

- SB 525 was supported by a variety of groups lead by the Montana Association of Counties
- SB 525 created a 4% sales tax on goods and some services
- SB 525 aligned revenue sources with levels of government

Property taxes to local governments

Income taxes to State government

Sales taxes to fund a portion of K-12 schools

Local option sales tax

1999 Sales Tax (SB 525)

- Revenue was projected to be \$330 million
- Tax reductions were
 - Motor vehicles \$46 million
 - 95 mills property tax \$242 million
 - Business equipment \$120 million
 - Total \$408 million
- Property tax reductions to government
 - State \$265 million
 - Local governments \$92 million
 - Schools \$16 million
 - Total \$373 million

2003 TOURISM TAX

SB 407



2001 Governor Martz wanted to reduce Montana's top income tax rate



Needed replacement revenue



Formed a working group to create a sales tax focused on tourism



Senate Bill 407 introduced in 2003

SENATE BILL 407

- Decreased top income tax rate from 11.9% to 6.9%
- Limited deductibility of Federal Income taxes
- Adjusted brackets
- Proposed a limited state-wide sales tax (Tourism Tax)

SB 407 Tourism Tax - Proposed

- Restaurant and prepared foods
- Alcohol by the drink
- Accommodations
- Rental Cars
- Recreation Activities
- Souvenirs and other goods purchased by tourists

SB 407 Tourism Tax - Adopted

- X Restaurant and prepared foods
- X Alcohol by the drink
- Accommodations 3%
- Rental Cars 4%
- X Recreation Activities
- X Souvenirs and other goods purchased by tourists
- Increase cigarette tax by \$.52/ pack

SB 407 FISCAL IMPACT

Income Tax	(\$46 Million)	
Accommodation Tax 3%	\$26 million	
Rental Car Tax 4%	\$2.4 million	
Cigarette Tax \$.52/pk	\$26 million	
Net		\$8.4 million



2017 Value Added Tax (VAT)

A bridge too far

Eliminated Most Property Taxes

- Required a major change in government operations
- Legislature had to approve any infrastructure funding

Value-Added Tax Structure

- Low rate (2%) on a broad-base of goods & services.
 - Pyramids: Taxes the value-added to items along supply chain.
 - Generated \$1.1 billion.
 - (Optional) Similar to Hawaii. (or European style)
-



HB 741

Government Changes

- Eliminated main revenue source for schools and local government
 - Required the State to assume local debt
 - Used VAT revenue to fund schools and local government
 - Created a statewide property tax levy on centrally assessed property
 - Created two commissions to evaluate infrastructure needs for schools and local governments
-

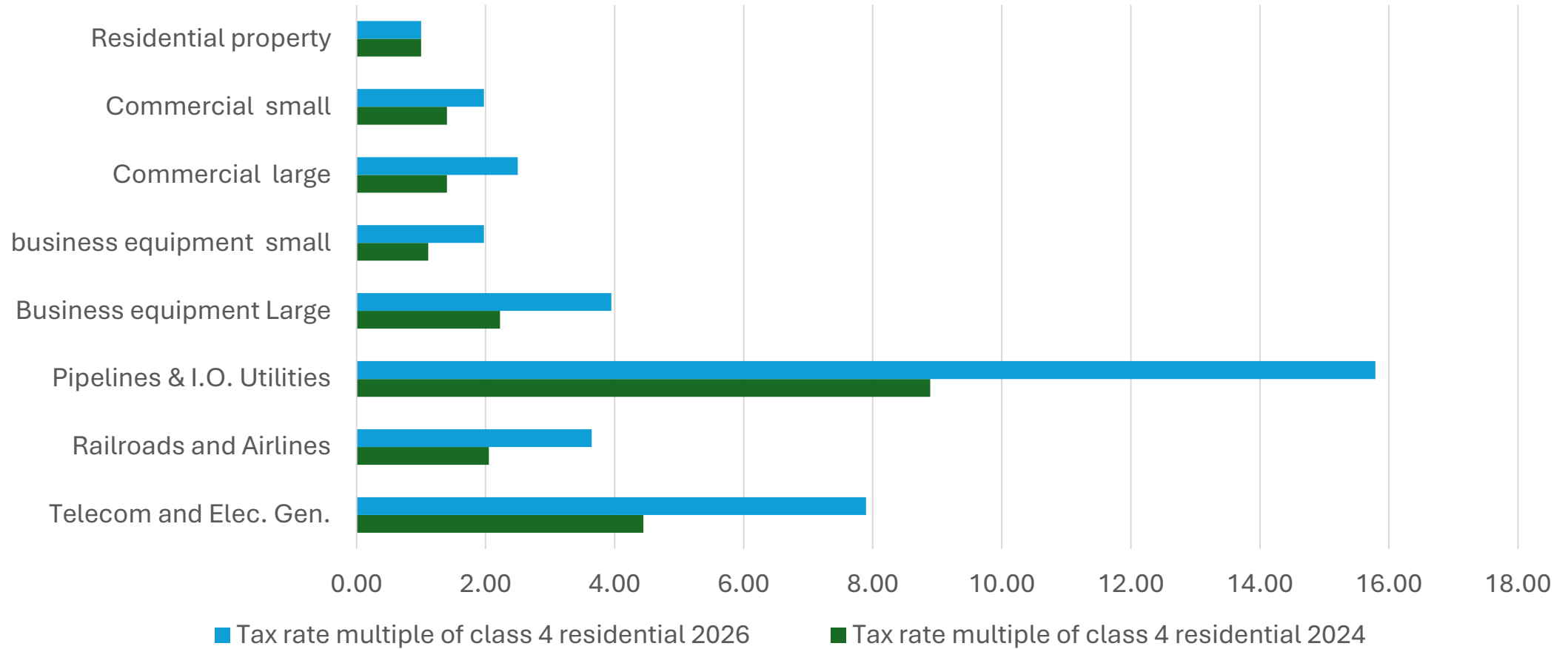
MY CRYSTAL BALL

- There will continue to be efforts to promote a sales tax
- Voters will need solid assurances of tax relief
- Revenue from a sales tax will have to replace current taxes
- Revenue will have to be equitably distributed

MY CRYSTAL BALL

- Substantial property tax reduction can be accomplished through the K-12 school funding formula
- Montana owners of homes may need specific property tax relief
- Levy and Bonding laws will have to be modified to recognize that Montanans who receive substantial property tax relief can't increase property taxes on business
- The property classification system needs to be modified to eliminate current inequities.

2025 LEGISLATURE PROPERTY TAX ACTION



DESIGNING A SALES TAX



Broad based



Adequate
Constitutional
protections



Provides noticeable
property tax relief



Allows for local option
sales tax

BROAD BASED SALES TAX

1. Taxes most retail goods
 - a. Tax all retail transactions with rebates
 - b. Tax common retail transactions with common exemptions
 - c. Capture purchase by visitors
2. Taxes many services
 - a. Montana's economy is more service centered
 - b. Limit tax on business-to-business services
 - c. Capture purchases by visitors that are not currently taxed

Constitutional Protections

Currently have
4% cap on a
state-wide
general sales tax

Require all sales
tax revenue be
used to reduce
property taxes

NOTICABLE PROPERTY TAX RELIEF

1. Eliminate state-wide mills for K-12 education	(\$462 Million)
2. Eliminate university mill levy	(\$29 Million)
3. Eliminate 1.5 mill vo-tech levy	(\$2 Million)
4. Reduce or eliminate county-wide equalization levies	(\$93 Million)
5. State fund the required Base spending for K-12 schools	(\$146 Million)
	Total
	(\$732 Million)
6. Cost-share above BASE school funding*	
7. Provide rebate for homeowner*	

LOCAL OPTION SALES TAX

1. Allow local option sales tax at county level
2. Same tax base as State
3. Require revenue to be used for a combination of property tax relief or infrastructure
4. State administration
5. Allow current resort taxes to phase out



QUESTIONS

Bob Story

Executive Director

Montana Taxpayers Association

rstory@montax.org
