HB 231 & SB 542: Property Tax Changes Summary

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After years of large increases in residential property values, the 2025 Legislature revised tax rates for residential, commercial, and agricultural property. Changing the tax rate that applies to a property's market value revises the taxable portion of a property's value and the amount of property taxes paid. These tax rate revisions are a balancing act, however, as lowering the tax rate for some properties shifts property taxes to properties that do not receive rate reductions.

LOWER RATES FOR RESIDENTIAL, COMMERCIAL, AG PROPERTY

The two bills that change tax rates for residential, commercial, and agricultural property are House Bill 231 (HB 231) and Senate Bill 542 (SB 542).[1] The bills phase in rate changes in tax years 2025 and 2026.

2025 AND 2026 TAX RATES AS COMPARED TO 2024 TAX RATES

2025	2026
All residential property: tiered rate, lower value taxed at lower rate	Principal residences: tax rate reductions for most
Principal residences: $400 rebate	Non-principal residences: higher, flat rate
Commercial property: lower rate for first $400,000	Commercial property: lower rate for < 6 times median
Agricultural land: rate reduction	Agricultural land: 2025 rate continues

[1] Most of the changes are contained in SB 542., but coordination language in HB 231 amends portions of SB 542.

TIERED RATES FOR RESIDENTIAL PROPERTY, BENEFITS FOR PRINCIPAL RESIDENCES

Graduated tax rates go into effect beginning in 2025 for residential and commercial properties with a lower tax rate applying to a portion of all properties and the rates increasing as property value increases.

2025: RATES BASED ON VALUE WITH REBATES FOR PRIMARY RESIDENCES

For tax year 2025, residential property is subject to three tiers with dividing lines at $400,000 and $1.5 million. The tax rates are: 0.76% for the first $400,000 in value, 1.10% for the value greater than $400,000 and up to $1.5 million, and 2.20% for $1.5 million in value and above. For multifamily rental dwellings with a market value greater than $2 million, the maximum graduated rate is 1.89%.

The legislation also provides a one-time rebate for principal residences. The rebate is available to homeowners who owned and resided in their residence for at least 7 months in 2024 and is equal to property taxes paid up to a maximum of $400.

The Department of Revenue (DOR) will mail information about the rebates by June 30, 2025. Homeowners must apply online or return a paper application between Aug. 15, 2025, and Oct. 1, 2025, to receive the rebate.

RESIDENTIAL PROPERTY TAX RATES

	Property Type/Value	Tax Rate
2024	All land, dwelling: first $1.5 million	1.35%
	Dwelling: > $1.5 million	1.89%
2025	First $400,000	0.76%
	>$400,000 to $1.5 million	1.10%
	>$1.5 million	2.20%
	Rental multifamily dwelling >$2 million	Maximum graduated rate: 1.89%
2026	<u>Principal residence or long-term rental:</u>	
	≤ to median	0.76%
	> median to < 2 times median	0.90%
	2 times median to < 4 times median	1.10%
	4 times median or greater	1.90%
	Rental multifamily dwelling unit with qualified long-term rentals	1.10%
	Non-principal residence or non-long-term rental	1.90%
	Residence on qualified agricultural property	1.35%

2026: REDUCED TAX RATES FOR PRIMARY RESIDENCES, LONG-TERM RENTALS

The 2025 rebate and tax rates are temporary to allow time for DOR to implement a different graduated tax rate schedule for primary residences and long-term rentals in 2026.

Principal residences for which the owner receives a 2025 rebate automatically qualify for a reduced tax rate in 2026 if the property is still owned and occupied for 7 months of the year. Owners of long-term rentals also qualify for a reduced tax rate beginning in 2026 and may apply between December 1, 2025, and March 1, 2026. A long-term rental is a residence rented to tenants for periods of 28 days or more for at least 7 months each year.

The reduced tax rates for principal residences and long-term rentals are 0.76% for the value up to the statewide median residential value[2], 0.9% for the value between the median and two times the median, 1.10% for two times the median to four times the median, and 1.90% for the value greater than or equal to four times the median.

Rental multifamily dwellings used as long-term rentals will have a 1.10% tax rate. A residence on qualified agricultural property will be taxed at 1.35%. The tax rate for all other residential property will be 1.90%.

PRIMARY RESIDENCE TAX RATE COMPARISON, 2024 TO 2026

Year	Calculation	Taxable Value	Calculation	Taxable Value
	$400,000 Market Value		**$800,000 Market Value**	
2024	$400,000 x 1.35%	$5,400	$800,000 x 1.35%	$10,800
2025	$400,000 x 0.76%	$3,040	$400,000 x 0.76% + $400,000 x 1.10%	$7,440
2026	$395,400* x 0.76% + $4,600 x 0.90%	$3,046	$395,400* x 0.76% $395,400* x 0.90% + $9,200 x 1.10%	$6,665

*Based on current estimate of statewide median residential value

COMMERCIAL AND INDUSTRIAL PROPERTIES SWITCH TO GRADUATED TAX RATES

Commercial and industrial property, like residential property, will move to a graduated rate structure.

For tax year 2025, the tax rate for the first $400,000 of class four commercial and industrial property is 1.40% and the tax rate for additional value is 1.89%. In 2026, the rates change to 1.50% for the value that

[2] The estimated statewide median residential value for the 2025-2026 reappraisal cycle is $395,400.

is less than six times the statewide median commercial and industrial value[3] and 1.90% for the value above six times the median.

COMMERCIAL & INDUSTRIAL PROPERTY TAX RATES

	Property Value	Tax Rate
2024	All	1.89%
2025	$400,000 or less	1.40%
	Greater than $400,000	1.89%
2026	Less than 6 times median	1.50%
	6 times median or greater	1.90%

AGRICULTURAL LAND TAX RATES DECREASE BEGINNING IN 2025

Class three agricultural property will see tax rate reductions in 2025 that remain in effect for tax year 2026. The tax rate for qualified agricultural property, which includes parcels of 160 acres or more and smaller parcels that meet agricultural income requirements, will decrease from 2.16% in 2024 to 2.05% in 2025 and 2026.

The tax rate for nonqualified agricultural property is seven times the qualified agricultural property tax rate, resulting in a rate reduction from 15.12% to 14.35%. Nonqualified agricultural property is property between 20 acres and 160 acres for which DOR has not approved an agricultural property application.

AGRICULTURAL PROPERTY TAX RATES

	Qualified agricultural land	Non-qualified agricultural land
2024	2.16%	15.12%
2025/2026	2.05%	14.35%

[3] The estimated statewide median commercial and industrial value for the 2025-2026 reappraisal cycle is $356,000.

IMPACT ON TAX BILLS WILL VARY BY JURISDICTION, PROPERTY

Lower tax rates for many residential, commercial, and agricultural properties will reduce taxable values but that impact may be tempered by mill levy increases. Counties, cities, school districts, and special districts set mill levies to raise their budgeted revenue from the available taxable value in the jurisdiction. All taxpayers also pay 95 mills for K-12 education and 6 mills for the state university system. One mill raises $1 per $1,000 of taxable value.

Property Tax Calculation:

Market Value x Tax Rate = Taxable Value x Mill Levies/1000 = Taxes

State law limits how much revenue counties and cities can collect, while school budgets are largely driven by state funding formulas. Local taxing entities can raise revenue above the limits by requesting additional taxing authority from the voters.

There are two types of property tax levies:

- **Dollar-based levies** adjust the number of mills to raise a specified dollar amount.
- **Fixed mill levies** allow a taxing jurisdiction to levy a maximum number of mills.[4]

MILL INCREASES FOR DOLLAR-BASED LEVIES MAY SHIFT TAXES, TEMPER BENEFITS

Most general levies used by counties, cities, and schools are dollar-based levies. Lowering tax rates for certain classes of property reduces taxable value. Jurisdictions may increase mill levies to raise the same amount of revenue from the reduced taxable value.

Where to set mill levies is a decision for each taxing jurisdiction. Mill decisions are based on several factors, including revenue needs, the mix of property types within the jurisdiction, the amount of new property that can pick up some tax burden, and local preferences.

The impact on properties with reduced taxable values and increased mill levies depends on the relative size of the value reductions and mill increases. Mill increases shift taxes to properties with 2025 or 2026 values that are the same or higher than 2024 values.

[4] The 2025 Legislature enacted House Bill 20, which requires all new voted levies to be dollar-based levies.

FIXED MILLS MUST BE RECALCULATED UNDER NEW LEGISLATION

The reduced tax rates for certain residential, commercial, and agricultural property will reduce taxable values and decrease revenue from fixed mill levies. This affects two cities with charters that limit the number of mills — Billings and Sunburst — and voted fixed mill levies in other taxing jurisdictions. The 2025 legislation requires taxing jurisdictions to recalculate these fixed mill levies.

The cities with fixed mills in their charters must levy the number of mills in 2025 that will raise the amount of revenue collected in 2024. The 2025 mill levy then becomes the new maximum levy and the city may levy no more than the 2025 mills.

Local governments with fixed mill levies that are not part of a charter, such as voted levies for fire protection or public safety, must also set the 2025 mill levy to raise the revenue collected in 2024. After 2025, there are two options for the mill levy: convert the levy to a dollar-based levy subject to the maximum mill levy calculation in 15-10-420(1)(a)[5] or retain the 2025 mill levy as the new maximum levy.

RECALCULATION OF FIXED MILL LEVIES REQUIRED UNDER 2025 LEGISLATION

Charter

- 2025: Levy mills to raise 2024 revenue
- 2026: 2025 mills are new max

Other Fixed Levy

- 2025: Levy mills to raise 2024 revenue
- 2026:
  - convert to dollar-based levy subject to 15-10-420(1)(a); or
  - 2025 mills are new max

If a court of final disposition finds the recalculation requirements invalid, the legislation provides for a 4-year reimbursement for fixed mill levies through the entitlement share payment.

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[5] Senate Bill No. 117, enacted in 2025 and effective for 2026, revises the maximum mill levy calculation in 15-10-420.