MONTANA LEGISLATIVE
OFFICE OF RESEARCH & POLICY ANALYSIS

PROPERTY TAX OVERVIEW

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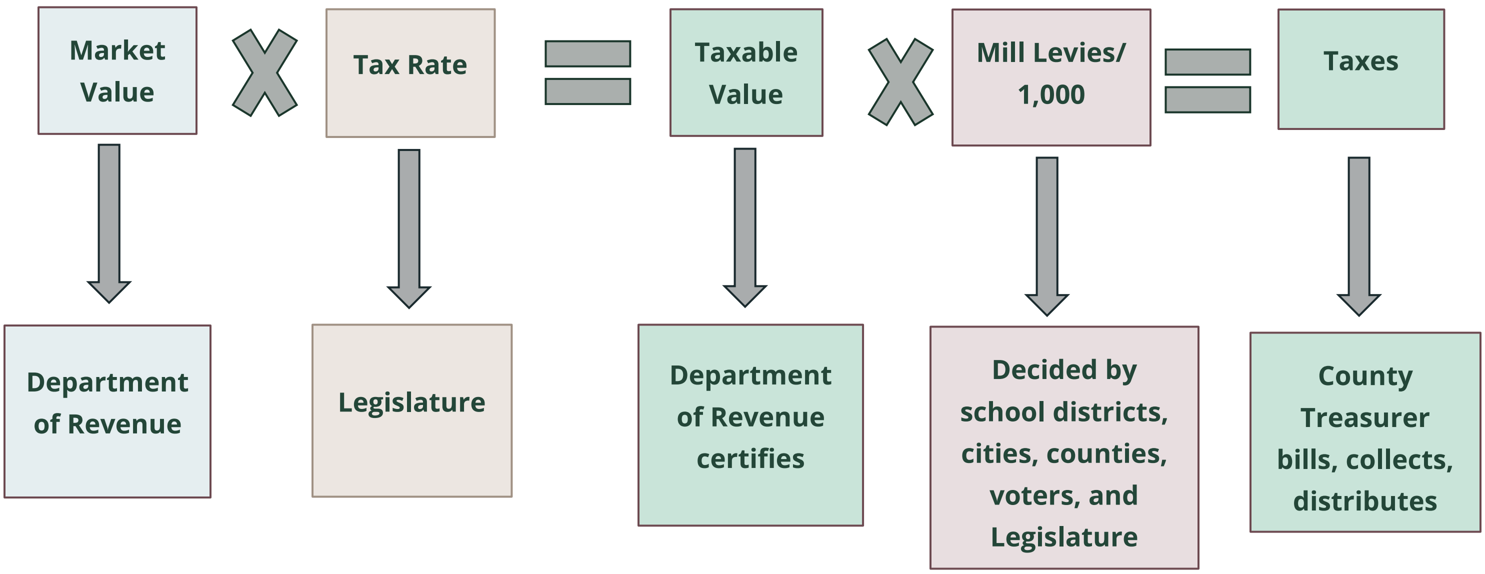
HOW ARE PROPERTY TAXES CALCULATED

The property tax is an ad valorem tax, meaning it is based on the value of the property. The property's market value is multiplied by the tax rate and the mill rate to determine taxes due.



State law provides for the state's property tax policy, but other parties play a role in implementing the policy and determining actual tax bills. The Department of Revenue determines the market value of all properties in the state, applies the tax rates set in state law, and provides the resulting taxable values to taxpayers and taxing jurisdictions.

Taxing jurisdictions include the state, cities, counties, school districts, and special districts. These entities set mill levies based on their budgets. One mill raises $1 per $1,000 of taxable value.

Mill levies for each taxing jurisdiction in which a property is located are summed, divided by 1,000, and multiplied by taxable value to determine taxes due. The county treasurer issues tax bills, collects tax payments, and distributes tax revenue to each taxing jurisdiction.

DEPARTMENT OF REVENUE VALUES PROPERTY

The Montana Constitution requires property appraisal at the state level. Most other states use county-level appraisers.

> **Article VIII, Section 3:** The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

Montana law directs the Department of Revenue (DOR) to appraise property at 100% of market value, with a few exceptions. Agricultural property and forest land are valued based on the productive capacity of the property.

The Department of Revenue uses three approaches for valuing property.

Sales comparison

- Uses arm's length sales of like property with adjustments for property characteristics
- For residential and commercial property

Cost

- Uses the original cost of the property less depreciation
- Information from business records
- For commercial and industrial property
- May be used for residential if no sales data

Income

- Uses income generated from property divided by the rate of return expected from investment property
- Information from income statements and financial markets
- For commercial and industrial property
- Modified income approach used for agricultral and forest property

Residential, commercial, agricultural, and forest property and some centrally assessed property are valued every 2 years, while all other property is valued annually.

Centrally assessed property is property operated as a single and continuous property, either because the property is physically connected or because the property is functionally operated as a single entity. Examples of centrally assessed property include telecommunication utilities and pipelines.

Once each valuation cycle and generally in June, DOR provides property owners a classification and appraisal notice that shows a property's value. If new construction changes a property's value during a 2-year reappraisal cycle, the property owner will receive a notice in the second year as well.

CLASS OF PROPERTY DETERMINES TAX RATES

Montana uses a classification system to set property tax rates based on the use of the property.

TIERED RATES FOR RESIDENTIAL PROPERTY, LOWER FOR PRINCIPAL RESIDENCES

The following table shows class four residential property tax rates for 2025 and 2026 and after. Legislation in 2025 revised residential property tax rates.

CLASS FOUR RESIDENTIAL PROPERTY TAX RATES

	Property Type/Value	Tax Rate
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 and after	Principal residence or long-term rental:	
	≤ 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%
	Residence on qualified agricultural property	1.35%
	All other residential property	1.90%

COMMERCIAL AND INDUSTRIAL PROPERTIES ALSO SWITCH TO GRADUATED RATES

The tax rate for class four commercial and industrial property also moved to a graduated rate structure beginning in 2025.

CLASS FOUR COMMERCIAL AND INDUSTRIAL PROPERTY TAX RATES

	Property Value	Tax Rate
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%

OTHER TAX RATES UNCHANGED, EXCEPT FOR AGRICULTURAL PROPERTY

The 2025 legislation also reduced the tax rate for class three agricultural property. Tax rates for other classes of property did not change.

TAX RATES FOR CLASSES OF PROPERTY (OTHER THAN CLASS FOUR PROPERTY)

Class	Description	Tax Rate
1	Net proceeds of mines	100%
2	Gross proceeds of metal mines	3%
3	Agricultural land	2.05%
	Nonqualified agricultural land	14.35%
5	Rural electric cooperatives not in class seven, rural telephone cooperatives, pollution control/carbon capture equipment[1], new and expanding industry	3%
7	Rural electric cooperatives not included in class nine, non-centrally assessed utilities	8%
8	Business personal property	First $1M: exempt Next $6M: 1.5% Above $6M: 3%
9	Non-electric generating property of electric utilities, pipelines	12%
10	Forest land	0.37%
12	Railroads and airlines	2.82%[2]
13	Electric generating property, telecommunications utilities	6%[3]
14	Renewable energy production and transmission property	3%
15	Carbon dioxide and liquid pipeline property	3%; except for carbon sequestration equipment with abatement, 1.5%
16	High voltage direct-current converter stations	2.25%
17	Certain qualified data centers, dedicated communications infrastructure, and electrical generation systems for 10 years (class thirteen after)	0.9%
18	Green hydrogen facility, pipeline, or storage system property with construction beginning after 6/1/2021	1.5% for 15 years after construction or 15 years after additional investment of $25 million; 3% after

[1] Pollution control and carbon capture equipment placed into service after January 1, 2014, is exempt.

[2] Rate is calculated annually by dividing the total statewide taxable value of all commercial property excluding class twelve property by the total statewide market value of all commercial property excluding class twelve property.

[3] The tax rate is 3% for 10 years for dedicated communications infrastructure and electrical generation systems of a qualified data center after the termination of the 10-year class seventeen preferential tax rate.

TAXABLE VALUES CERTIFIED IN AUGUST

State law requires the Department of Revenue to certify taxable values to taxing jurisdictions by the first Monday in August. The statement must include an estimate of the taxable value of newly taxable property.

Taxing jurisdictions use certified taxable values to calculate mill levies that determine taxes due.

HOW ARE MILL LEVIES SET?

State, county, and school district mills are levied on all property subject to taxation in Montana. Cities and special districts[4] also impose property taxes on property within their boundaries.

State law specifies mill levies for K-12 equalization and the university system. County, city, and special district property tax levies are authorized in state law, but the mills levied depend on decisions of each taxing jurisdiction. Local school district mills include a mix of mills required by the school funding formula in state law and mills reflecting decisions of local school districts.

STATE LEVIES FUND K-12 EQUALIZATION AND HIGHER EDUCATION

The state levies property taxes for K-12 equalization and vocational technical and university education, with specific mill levies listed in statute.

- **The 95 mills**: 33 mills for county elementary equalization (20-9-331), 22 mills for county high school equalization (20-9-333), and 40 mills for state equalization (20-9-360);
- **6 mills** for the state university system (15-10-109); and
- **1.5 mills** for vocational-technical education *levied only in Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone Counties* (20-25-439).

STATE K-12 EQUALIZATION AID IS ADJUSTED BASED ON REVENUE FROM 95 MILLS

Revenue from the 95 mills is deposited in the school equalization and property tax reduction account (SEPTR). If the forecast revenue in the account differs from the amount expected in the prior year, state equalization aid is adjusted.

An increase in revenue from the 95 mills results in more state equalization aid and a decrease in countywide school retirement mills and other adjustments to offset the need for voted school district general fund levies. If revenue from the 95 mills decreases, there is less state equalization aid and local school district mills must increase.

[4] A special district is a unit of local government authorized by law to perform a single function or a limited number of functions. Many special districts assess fees rather than a mill levy.

STATE MILLS FUND UNIVERSITY SYSTEM, VOCATIONAL TECHNICAL EDUCATION

Voters approved the most recent legislative referendum for a 6-mill levy to support the university system in 2017. The levy terminates December 31, 2028. Funds are deposited in a state special revenue account.

The 1.5 mills levied for vocational-technical education are deposited in the general fund but must be distributed for vocational-technical education based on the Board of Regents budget.

STATUTE AUTHORIZES CITY, COUNTY, AND LOCAL SCHOOL DISTRICT LEVIES

Some statutes provide broad authority to levy property taxes for public and governmental purposes, while other laws allow property taxes for specific purposes.

Most authority to levy property taxes is permissive, which means that the governing body of the taxing jurisdiction can impose the property tax without submitting to voters the question of whether to levy the tax. A voted levy must be approved by a majority of voters within the taxing jurisdiction.

Some levies require voter approval, while local governments or school districts choose to submit other levies to voters to exceed revenue or budget limits or to increase a levy required to be submitted to voters.

The school funding formula requires certain school district levies. These are called required or formulaic levies.

COUNTY AND CITY LEVIES LIMITED, 2026 CHANGES TO MAXIMUM LEVY CALCULATION

Although state law allows counties and cities to permissively levy property taxes for many purposes, the total revenue raised is limited. Section 15-10-402, MCA, limits property taxes to 1996 levels. However, that section of law is subject to 15-10-420, MCA, which expands the property tax limit by allowing for an inflationary adjustment.

Under current law, a city or county is permitted to levy mills that will raise the amount of revenue collected in the previous year adjusted by half of the average rate of inflation over the prior 3 years. The allowable mill levy is calculated using the current year taxable value of property in the taxing jurisdiction less the taxable value of newly taxable property. Newly taxable property includes new construction, subdivided property, and the transfer of property from tax-exempt to taxable status.

A taxing jurisdiction may exceed the mill levy authorized under 15-10-420, increase a mill levy that is required to be submitted to voters, or impose a new mill levy upon an affirmative vote of the voters in the jurisdiction. This authority is provided for in 15-10-425, MCA.

The maximum mill levy calculation in 15-10-420 does not apply to the 95 mills for school equalization, the 6 mills for the university system, the 1.5 mills for vocational-technical education, or local school district levies.

2026 Changes to 15-10-420

The 2025 Legislature enacted Senate Bill 117, which will amend the maximum levy calculation in two ways:

- The inflationary adjustment will be based on the full rate of inflation over the prior 3 years, up to a maximum of 4%.
- The amount of newly taxable property excluded from the calculation will be:
  - 75% of newly taxable property in class four; and
  - 40% of newly taxable property in other classes or 50% if the taxing jurisdiction creates a large taxpayer reserve account.

LOCAL SCHOOL DISTRICT LEVIES DRIVEN BY FORMULA

Funding for school districts comes from a mix of federal, state, and local revenue. State and local revenue is based on a formula provided for in state law. The amount varies based on the number of students, the amount of state aid, and the availability of other local revenue.

School districts may use voted levies to request increases to school budgets. The voted levy must specify the proposed use of the funding and the dollar amount to be raised. Examples include construction or renovation of schools and technology upgrades.

COUNTYWIDE SCHOOL LEVIES FUND RETIREMENT AND TRANSPORTATION

Property taxes fund school district employee retirement costs and a portion of pupil transportation costs on a countywide basis.

The county superintendent determines the levy required to pay the district's transportation and the cost of the employer share of school district employee retirement, federal social security, and unemployment insurance.

State law provides a formula for calculating the amount of each levy and other revenue that must be used to reduce the property tax levy. If a school district crosses county lines, the levy is prorated based on pupil residency.

TAXES FOR MOST PROPERTY DUE IN NOVEMBER AND MAY

County treasurers bill and collect property taxes and distribute property tax revenue. Property owners receive tax bills in October. For most property, half of property taxes are due November 30 of the current year and half are due May 31 of the following year.

Many homeowners with mortgages pay property taxes monthly to an escrow account. The account administrator holds the monthly payments and remits the taxes directly to the county treasurer by the statutory due dates.

Personal property not affixed to real property is subject to different due dates: May 31 and November 30 of the current year for mobile homes not on a permanent foundation and 30 days from the billing date for other personal property not attached to real property.

ASSISTANCE FOR LOW INCOME, SENIORS, VETERANS, LAND

The state offers property tax assistance for various taxpayers under four different programs. Two programs reduce taxable value for low-income homeowners or disabled veterans. Seniors with incomes below $45,000 may claim an income tax credit for property taxes or rent paid. Land valued disproportionally greater than the primary residence located on the land is eligible for an exemption under certain conditions.

Beginning in 2026, House Bill 140 enacts property tax assistance for first responders injured in the line of duty. The program requirements and benefits are similar to the disabled veteran program.

SUMMARY OF PROPERTY TAX ASSISTANCE PROGRAMS

Property Tax Assistance Program

- Reduces taxable value on $350,000 of market value to 20%, 50%, or 70% of value, based on income
- Maximum 2023 FAGI of $28,329 single/$37,968 married or head of household
- Ownership and occupancy for 7 months of the year

Disabled Veteran Program

- Reduces taxable value of 100% disabled veteran or surviving spouse to 0%, 20%, 30%, or 50% of value, based on income
- Maximum 2023 FAGI of $61,071 single/$70,467 married, head of household/ $53,242 surviving spouse
- Ownership and occupancy for 7 months of the year

Elderly Homeowner and Renter Credit

- Refundable income tax credit of up to $1,150 for homeowners and renters age 62+
- Credit for property taxes or 15% of rent paid, based on income
- Maximum income of $45,000
- Must reside in Montana for 9 months of the year

Intangible Land Value Exemption

- For up to 5 acres of land valued disproportionately higher than the primary residence located on the land
- Land value above 150% of the primary residence value is exempt (subject to statewide average value of land)
- Requires ownership by applicant or family for 30 years