

HJ 35: COMPLEMENTARY STATE & LOCAL TAX SYSTEMS

OVERVIEW OF PRINCIPLE

A high-quality revenue system should include complementary state and local tax systems. State law dictates which taxes a local government may levy and creates mandates that require local government spending. The state may subsidize local governments to prevent inequality, reduce tax burdens, or increase services but this practice should be balanced with local control considerations.

If state and local governments levy the same tax, attention should be given to efficiency to prevent compliance concerns for taxpayers. Because of the limited taxing authority of local governments in Montana, this is likely not a significant concern. The property tax is the only major tax levied by the state and local governments. Administration of the property tax includes clearly-delineated roles for the state and local governments.

Prior to passage of HB 124 in 2001 (The Big Bill), revenue collection in Montana was more complicated with local governments collecting revenue and forwarding it to the state and the state sending revenue to local governments. The Big Bill revised the distribution of some taxes and created the entitlement share payment as a mechanism for sending revenue to local governments.

This overview uses ideas outlined in the National Conference of State Legislatures' Principles of a High-Quality State Revenue System and adds specific analysis relevant to the Montana tax system.

STATE LIMITS ON LOCAL TAXING AUTHORITY

State law prohibits local governments from levying taxes unless specifically authorized to do so. The taxes local governments are authorized to levy are the property tax, the local option motor fuel excise tax, the local option motor vehicle tax or flat fee, and the resort tax. All four taxes include limits on the amount of the tax or which entities can levy the taxes.

PROPERTY TAX

All cities and counties levy the property tax as do school districts and special districts, but the mills levied are limited as provided in 15-10-420.

LOCAL OPTION MOTOR FUEL EXCISE TAX

A county may enact a local option motor fuel excise tax upon an affirmative vote of county residents. The tax may be 1 cent or 2 cents per gallon of gasoline. No counties currently levy this tax and, though some counties have discussed the tax, none have submitted it for voter consideration.

LOCAL OPTION MOTOR VEHICLE TAX OR FLAT FEE

A county may impose a local option motor vehicle tax on annual and permanent motor vehicle registrations at a rate of up to 0.7% of the value or may impose a flat fee on light vehicle registrations. The tax or fee must be approved by the electorate of the county. The county retains half of the tax or fee and the other half is split between the county and incorporated cities and towns based on population.

RESORT TAX

Cities and unincorporated areas with small populations that derive significant economic activity from tourism may levy a tax of up to 4% on luxury goods and goods and services provided by hotels, restaurants, bars, and recreational facilities. Ten communities currently levy a resort tax.

STATE AND LOCAL GOVERNMENT SHARED REVENUE SOURCES

This section provides a brief overview of revenue sources shared by the state and local governments.

DRIVER'S LICENSE FEES

If the county or a Department of Justice agent collects driver's license fees, a portion is deposited in the county general fund as follows: standard driver's license or commercial driver's license, 2.5%; replacement driver's license, 3.75%; motorcycle endorsement, 3.34%.

GAMING TAXES

The 1% of gross proceeds tax on bingo and keno is distributed to the city or county where the game is held. The Department of Justice receives \$100 of the live card game table annual permit fee and the remainder is distributed to the city or county where the game is held. (The fee is \$250 for the first table and \$500 for each additional table.) The video gambling machine annual permit fee is \$240, and the Department of Justice receives \$140 and the city or county in which the machine is located receives \$100.

GASOLINE AND SPECIAL FUEL TAXES

The amount of \$16,666,000 per year is distributed from the Highway Restricted Account to counties and incorporated cities and towns for highway construction and maintenance. Approximately 65% of the revenue

distributed to the Bridge and Road Safety and Accountability Restricted Account is available to cities and counties.¹ The local government must match every \$20 requested with \$1 of local government revenue.

HIGHWAY PATROL FINES

Highway Patrol fines are split evenly between the county general fund and the state General Fund. The exception is fines for violations of vehicle size and weight laws and fines resulting from apprehension or arrest by a Highway Patrol officer, which are all distributed to the state General Fund.

METALLIFEROUS MINES LICENSE TAX

Through FY27 35% of metalliferous mines license tax revenue is distributed to counties experiencing impacts from hard-rock mining. After FY27, the amount is reduced to 25%.

OIL AND NATURAL GAS TAXES

A portion of oil and natural gas production tax revenue is distributed to each county in which the production occurred. The portion distributed is provided in [15-36-331](#) and ranges from 39.33% to 69.53%. The county then distributes the revenue as provided in [15-36-332](#) for elementary school district retirement, high school district retirement, countywide school transportation, school districts, and the county general fund.

If the Board of Oil and Gas Conservation does not use the entire 0.3% of the combined privilege and license tax and tax for the oil and gas distribution account, up to 0.08% is distributed to counties based on oil and gas production for distribution to the cities and towns within the county.

PROPERTY TAX

The state sets property tax policy including the classification system, tax rates, valuation cycle, and property tax assistance programs. The state levies mills for K-12 education, the university system, and vocational and technical education. Counties, cities, and school districts each set their own mill levies within limits provided for in [15-10-420](#). County treasurers collect property taxes and distribute them to the levying authority.

U.S. MINERAL LEASING

Twenty-five percent of revenue received from the federal government for mineral leases is deposited in the Mineral Impact Account for distribution to counties from which the minerals were produced.

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¹ Thirty-five percent of the revenue or \$9.8 million, whichever is greater, remains in the account for state highway construction and maintenance.