

	MT	Thompson Falls	Frederick Van Den Abbeel	Self	03/14/2026 06:26 PM
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**Subject:** Proposal for Property Tax Reform | Land Value Taxation Method

**Attachments:**

**Comment:** Dear Revenue Interim Committee,

 [VIEW ATTACHMENT 1](#)

First, thank you very much for your public service. I am a property owner in Thompson Falls and I care deeply about the future of Montana. I have attached a proposal that I have created with the help of artificial intelligence. While I am an employee of the Montana Department of Commerce, my proposal to you here is strictly personal interest and my individual contribution to help Montana become a better version of itself. Thank you for your time and consideration.

## Executive Summary

Montana can lead the nation by modernizing its property tax into a system that is **efficient, pro-growth, and equitable**—one that attracts investment, supports housing affordability, and stabilizes local finances. The centerpiece is a **revenue-neutral, split-rate “land value taxation” (LVT)** approach: tax **land** (the immobile, community-created value) more heavily and **improvements** (buildings, equipment) less, paired with **levy limits**, an **income-based circuit breaker**, and **transparent assessments**. Economic theory finds land taxation uniquely efficient—it **raises revenue without discouraging productive investment**, while traditional taxes on buildings do exactly that. [\[1\]](#)

This proposal builds on best-in-class research from the **Lincoln Institute of Land Policy** and the **Tax Foundation**, plus the latest **50-state property tax comparisons**—and is tailored to Montana’s recent legislative changes (HB 231 / SB 542) and administrative guidance. [\[1\]\[2\]\[3\]\[4\]\[5\]](#)

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## Why Reform, Why Now

- **Efficiency & Growth:** Taxes on land do not reduce the supply of land or deter investment decisions; the burden falls on landowners, not on new construction. In contrast, taxing improvements discourages building, renovation, and business expansion. [\[1\]](#)
  - **Competitiveness:** Comparative data across 100+ U.S. cities show that classification systems which favor homesteads can drive **much higher effective rates on apartments and commercial property**, undermining business attraction and rental housing supply. [\[2\]\[3\]](#)
  - **Stability & Fairness:** Property taxes are a stable local revenue source, but **poorly designed assessment limits create inequities**, particularly between new and long-tenured homeowners; better tools are **levy limits** and **targeted circuit breakers**. [\[6\]\[7\]](#)
  - **Montana Context (2025–2026):** Montana enacted tiered rates and homestead/long-term rental preferences; the Department of Revenue has updated classification and appraisal notices and launched taxpayer help programs. Reform should **consolidate recent changes** into a coherent, pro-growth framework. [\[5\]\[8\]](#)
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## Design Principles

1. **Efficiency & Neutrality:** Favor taxes that **do not distort** location or investment decisions (LVT); avoid shifting burdens across property classes arbitrarily. [\[1\]\[4\]](#)

2. **Equity:** Protect low- and moderate-income households with **income-based relief** and reduce horizontal inequities created by assessment limits. [6]
  3. **Competitiveness:** Lower barriers to business formation, expansion, and multifamily housing by **reducing taxes on improvements** and narrowing extreme classification ratios. [3]
  4. **Transparency & Stability:** Emphasize **levy-based budgeting**, clear millage changes, and frequent, accurate assessments using best practice CAMA tools. [6]
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## The Proposed Montana Property Tax System

### 1) Statewide Split-Rate Land Value Tax (LVT)

#### Structure (revenue-neutral at launch):

- **Land millage:** +X% (phased in)
- **Improvements millage:** -X% (phased out over 5–7 years)
- **Goal:** Shift the tax base toward land while keeping total collections unchanged in the transition window, letting businesses and homeowners see **lower taxes on new construction and rehabilitation**. [1]

#### Economic rationale:

- A tax on land is uniquely efficient (fixed supply); it **doesn't deter building or timing of development**, whereas taxes on improvements do. Splitting the rate raises intensity of development and can **reduce sprawl**—matching Montana's goals for vibrant town centers and reduced leapfrog growth. [1]

#### Legal & administrative feasibility:

- The U.S. legal framework allows differential taxation of land and improvements with careful attention to uniformity clauses; some states require constitutional amendments or targeted statutes. Montana should commission legal analysis and, if needed, **refer a narrowly tailored amendment** permitting split-rate LVT statewide or by local option. [1]
- Assessors can value land independently of improvements using established methods (sales of vacant lots, land residual techniques, GIS/CAMA). Training and statewide guidance will be provided through the Department of Revenue. [1]

#### Pilot & Rollout:

- **Phase 1 pilots** in Helena, Bozeman, Missoula, Billings, Great Falls—5 years with annual evaluation of **building permits, infill rates, and effective tax burdens** across property types. [1]
- **Local option:** Cities/counties may adopt LVT earlier; the state ensures consistency of assessment methodology and reporting. (Tie to Significant Features of the Property Tax® and Lincoln Institute assessment tools.) [9]

## 2) Replace Parcel-Specific Assessment Limits with Levy Limits + “Truth-in-Taxation”

- **Problem:** Assessment caps create **tax inequities** (new buyers pay far more than long-tenured owners for identical homes), distort mobility, and shift burdens unpredictably. Comparative research shows better results from **levy limits** (constraints on total collections growth) and transparent millage adjustments. [3][6]
- **Solution:**
  - Adopt **levy growth caps** at the local level (e.g., CPI + new construction), with required public hearings (“truth-in-taxation”) when exceeding caps. [6]
  - Encourage jurisdictions to **reset millage** when values rise, maintaining revenue stability without creating disparities. [7]

## 3) Targeted, Income-Based Circuit Breaker (Including Renters)

- Implement a **statewide circuit breaker credit** that refunds property tax **above a set share of household income**, available to homeowners and renters (recognizing property tax pass-through in rents). This is the most **targeted, cost-effective** affordability tool. [6]
- Integrate and modernize **PTAP** and **Elderly Homeowner/Renter Credit** into a unified application portal; keep higher benefits for seniors and disabled veterans, while extending support to other low-income households. [10][11]

## 4) Rationalize Classification & Ratios to Support Business Attraction and Housing

- Use the 50-state data to identify Montana’s effective **commercial-to-homestead** classification ratios; target a **cap (e.g., ≤1.5)** over time. Cities with extreme classification (e.g., >3:1) impose **double or more** effective rates on apartments and businesses, hurting competitiveness and housing supply. [3]
- Align Montana’s recent tiered framework (HB 231/SB 542) with an LVT transition to **reduce improvement taxes** for multifamily and business properties, while avoiding new “split-roll” disparities that simply **shift burdens** rather than reform the base. [4][5]

## 5) Modernize Assessment & Equalization

- Adopt **annual revaluation** for high-growth areas; statewide **two-year cycles** elsewhere; publish **vertical equity** diagnostics (ratio studies) and make data open via a public dashboard (parcel-level land vs. improvement values, effective tax rates). [9]
- Standardize **highest-and-best-use** guidance for land appraisal to ensure LVT remains **neutral to current use** and promotes infill rather than speculation. [1]

## 6) School Funding & Equalization

- Maintain property tax as a stable local revenue source while **equalizing state aid** to account for value disparities (and prevent tax base competition from undermining school quality). The

50-state study emphasizes that overall tax/service packages—not just property tax rates—drive competitiveness and quality of life. [2]

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## How the System Benefits Residents and Businesses

- **Residents:**
    - Lower taxes on home improvements and new construction; **circuit breakers** protect low-income households and seniors; levy limits restrain growth in total bills without inequitable assessment caps. [6][10]
  - **Businesses & Apartments:**
    - Reduced tax on improvements encourages reinvestment; **narrower classification gaps** improve Montana’s rank in competitive comparisons; by taxing land value more, we discourage **speculation and underutilization** of prime sites. [1][3]
  - **Local Governments:**
    - **Stable, transparent** revenues; levy-based budgeting; clearer tradeoffs; better data to evaluate rates versus service quality. [6]
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## Implementation Roadmap (Five–Seven Years)

### 1) Enabling Legislation & Legal Review (Year 1):

- Authorize split-rate LVT statewide/local option; commission constitutional analysis and, if warranted, place a **limited amendment** on the ballot to permit differential rates on land vs. improvements. [1]

### 2) Assessment Modernization (Years 1–3):

- DOR to issue **LVT assessment manual**, train assessors in land residual methods, update CAMA; build **public dashboard** with effective tax rate and classification ratio reporting by jurisdiction. [9]

### 3) Pilot Cities (Years 2–4):

- Voluntary local adoption; track outcomes (permits, infill, apartment starts, commercial renovations) vs. matched comparison jurisdictions from the 50-state dataset. [2]

### 4) Levy Limits & Truth-in-Taxation (Year 2):

- Statewide adoption with public hearing requirements when exceeding caps. [6]

### 5) Circuit Breaker Integration (Year 2):

- Unify PTAP/EHRC; add renter eligibility with clear pass-through criteria; launch a simplified annual application via DOR. [10][11]

## 6) Classification Ratio Targets (Years 2–6):

- Set annual benchmarks to **reduce commercial/apartment effective rate multiples** relative to homesteads, informed by the 50-state comparison study. [3]

## 7) Statewide LVT Adoption (Years 4–7):

- Gradually increase land rate, reduce improvement rate, **revenue-neutral**; maintain guardrails for rural/ag settings with current agricultural classifications intact. [1]
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## Fiscal & Distributional Considerations

- **Revenue neutrality** during transition avoids shocks; changes in burdens will largely depend on **land intensity** (land value vs. improvement value). The literature shows mixed distributional results, so we propose **transitional relief** for high land-intensity parcels (e.g., small homes on high-value lots) and **sunset reviews** after five years. [1]
  - Montana’s recent tiered system (HB 231/SB 542) already introduced progressivity. This plan **replaces tax shifts** across classes with a structurally efficient base and **targeted, income-based relief**—avoiding non-neutral burdens on specific property uses like short-term rentals or commercial property. [4][5]
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## Risk Management & Safeguards

- **Assessment capacity:** Invest in assessor training and data tools (Lincoln Institute resources) to ensure accurate land valuations. [1][9]
  - **Legal compliance:** Pre-clear uniformity clauses and adopt local option pathways if statewide change requires constitutional action. [1]
  - **Equity:** Monitor vertical equity; adjust circuit breaker thresholds and benefits as needed. [9]
  - **Communication:** Truth-in-taxation hearings; public dashboards and annual reports comparing **effective rates**, levy growth, and service quality. [6]
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## What Success Looks Like (for Business Attraction & Housing)

- **Lower effective tax on improvements:** measurable uptick in **renovations, infill, and multifamily starts** in pilot cities. [2]
- **Reduced classification gaps:** commercial/apartment effective rates decline relative to homesteads ( $\leq 1.5:1$  over time), improving Montana’s position in competitive rankings and easing rental affordability pressures. [3]
- **Stable local revenues:** levy growth aligned with CPI + new construction; fewer spikes from value cycles; improved public trust. [6]

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## How This Aligns with the Research You Asked Us to Review

- **Land Value Taxation (Lincoln Institute):**
  - Efficiency and non-distortionary nature of land taxes; burden on landowners; potential to **reduce sprawl** and **encourage investment**; U.S. and international implementation experiences; legal framework and assessment feasibility. [\[1\]](#)
- **50-State Property Tax Comparison (Lincoln Institute + MCFE):**
  - Effective rate comparisons across cities show how **classification, property value levels, and tax reliance** drive rate differences. This informs Montana’s goals to reduce extreme commercial/apartment burdens relative to homesteads. [\[2\]\[3\]](#)
- **Tax Foundation Resource Center & Property Tax Reform Guidance:**
  - Preference for **levy limits** and **circuit breakers** over assessment caps; recognition of property tax’s relative efficiency; caution against **tax shifts** that pick winners and losers rather than structural reform. [\[12\]\[6\]\[7\]\[4\]](#)

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## Immediate Next Steps

- 1) Convene a **Montana Property Tax Innovation Commission** (state, local, business, housing) to draft enabling legislation and pilot criteria. (60–90 days.)
- 2) Direct DOR to prepare the **LVT Assessment Manual** and a **public dashboard blueprint** (land vs. improvement values, effective rate reporting). (120 days.) [\[9\]](#)
- 3) Identify **pilot cities** and sign MOUs; design metrics and reporting cadence drawing from the 50-state comparison framework. (180 days.) [\[2\]](#)
- 4) Draft **levy limit / truth-in-taxation** bill and **circuit breaker integration** with PTAP/EHRC portals. (2026 session prep.) [\[6\]\[10\]](#)

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## Appendix: Montana References & Resources

- **DOR Property Tax Changes (2025)** and Appraisal Notices (2025–26): guidance for classification, tiered rates, notices. [\[5\]\[8\]](#)
- **Property Tax Library (Montana Legislature):** education materials and tools for stakeholders. [\[13\]](#)
- **Local Administration (Lewis & Clark County) & Payment Portals:** taxpayer touchpoints during transition. [\[14\]](#)

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## Closing

# Property Tax System



**NB:**  
All locations here feature a tax rate of 1%

**Lesson I:**  
property tax rewards leaving land idle and underutilized, while land value tax does not

**Lesson II:**  
property tax penalizes development, while land value tax does not

# Land Value Tax System



**NB:**  
All locations here feature a tax rate of 2%

Rule of thumb —

- Rural areas: Land Values < Building Values
- Suburban areas: Land Values = Building Values
- Urban areas: Land Values > Building Values

## References

- [1] [Land Value Taxation - Lincoln Institute of Land Policy](#)
- [2] [50-State Property Tax Comparison Study](#)
- [3] [JULY 2024 50-State Property Tax Comparison Study](#)
- [4] [Montana Property Tax Reform Options, 2025 | Tax Foundation](#)
- [5] [2025 Tax Information for Montana Property Owners](#)
- [6] [Property Tax Relief & Reform: Details & Analysis | Tax Foundation](#)
- [7] [Property Taxes Guide: Property Tax Assessment | Tax Foundation](#)
- [8] [Montana Property Appraisal Notices Mailed with Updated 2025-26 Values ...](#)
- [9] [Property Tax Data - Lincoln Institute of Land Policy](#)
- [10] [Property Tax Assistance Program \(PTAP\) - revenue.mt.gov](#)
- [11] [Montana - AARP Property Tax Aide](#)
- [12] [Resource Center: All Tax Foundation Research & Data](#)
- [13] [Property Tax Library - Montana Legislature](#)
- [14] [Property Tax Information - Lewis & Clark County](#)