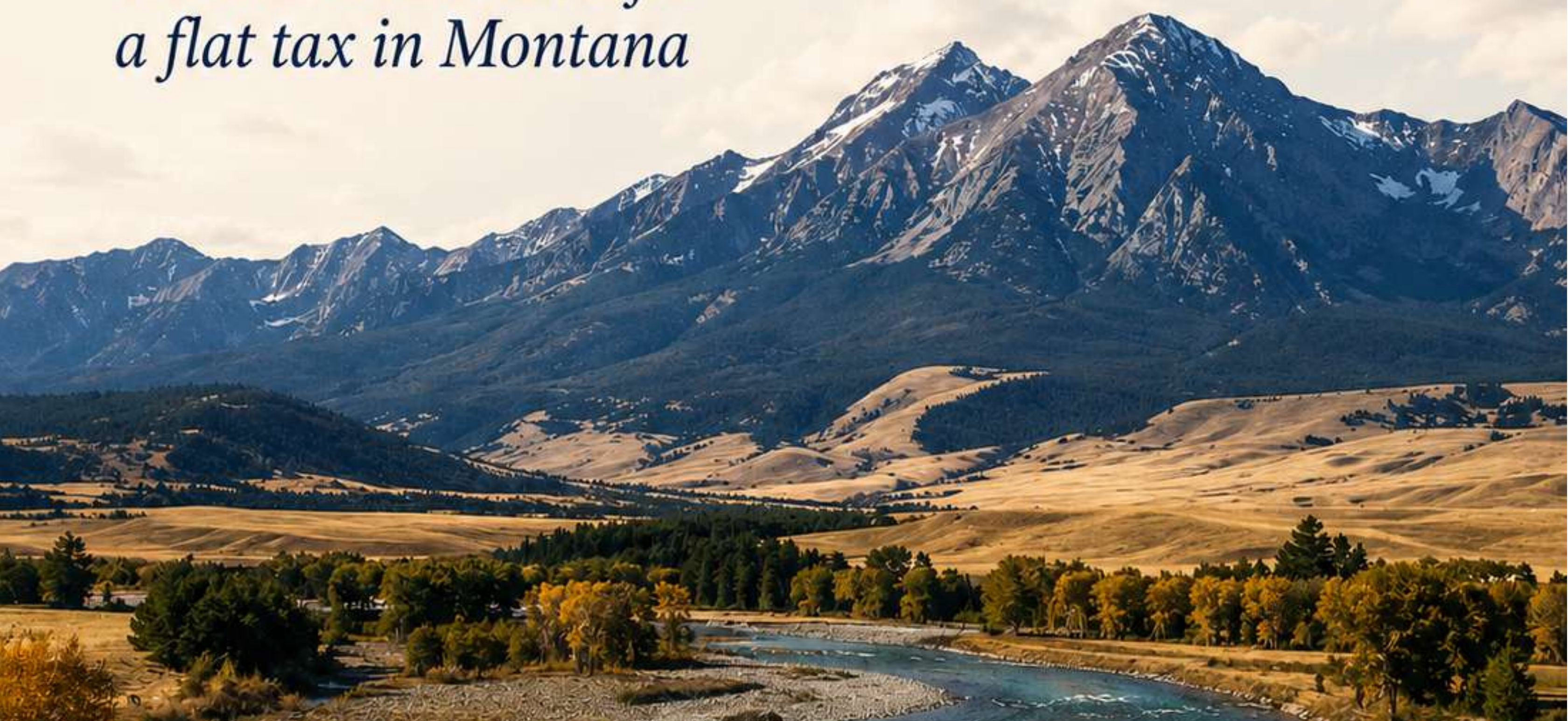
FLAT.
FAIR.
MONTANA.

The economic case for a flat tax in Montana



MOUNTAIN STATES
POLICY CENTER

Flat. Fair. Montana. – The economic case for a flat tax in Montana

By Chris Cargill
President

INTRODUCTION

Montana has become one of America's great economic success stories.

Over the past two decades, the Treasure State has attracted thousands of new residents, welcomed new investment, strengthened its business climate, and become one of the fastest-growing states in the nation. Communities from Kalispell to Billings, Bozeman to Miles City, have experienced remarkable economic transformation as workers, entrepreneurs, retirees, and families increasingly choose Montana as a place to live, work, and build their futures.

Smart public policy has played an increasingly important role in the state's success. Over the past twenty years, lawmakers have modernized regulations, improved the state's tax climate, and reduced barriers to economic growth. But perhaps no area of public policy has changed more dramatically than Montana's tax code.

Since 2003, lawmakers have repeatedly reduced personal income tax rates while simplifying the tax system. The number of tax brackets has been dramatically reduced, the top marginal tax rate has fallen from 6.9 percent to 5.4 percent, and Montana now ranks among the nation's ten most competitive tax systems according to the Tax Foundation.

Those reforms have produced meaningful progress. But they have not finished the job.

Despite years of tax reform, Montana still imposes one of the highest personal income tax rates in the region. Wyoming and South Dakota continue to impose no personal income tax. North Dakota's top rate is only 2.5 percent. Idaho recently adopted a 5.3 percent flat income tax and continues discussing additional reductions. Meanwhile, states throughout the country continue embracing flatter, simpler tax systems.

This raises an important question: what would happen if Montana completed the next step in its tax reform journey by adopting a single-rate 4.7 percent income tax?

This study examines that question using state-specific economic modeling prepared exclusively for Mountain States Policy Center, historical revenue data, interstate comparisons, and decades of economic research.

Montana has already proven tax reform works

Opponents of tax reform often present lawmakers with a simple choice: lower taxes or fund government.

Montana's experience over the past two decades demonstrates that this is a false choice.

While tax rates have steadily declined, Montana has simultaneously experienced strong population growth, rising incomes, expanding businesses, and record levels of tax collections. Rather than weakening the state's economy, successive rounds of tax reform have coincided with one of the strongest periods of economic expansion in modern Montana history.

This experience deserves careful examination because it provides important context for evaluating future tax policy.

From High Rates to Greater Competitiveness

Montana first adopted an individual income tax in 1933 during the Great Depression. At that time, tax rates ranged from just 1 percent to 4 percent. Over the following decades, lawmakers repeatedly expanded the tax code, adding brackets and increasing rates until the state's top marginal income tax rate eventually reached 11 percent during the 1980s.[1]

Like many states during that era, Montana embraced the belief that increasingly progressive tax structures could generate additional revenue while having relatively little effect on economic decision-making.

Over time, however, policymakers increasingly recognized the shortcomings of that approach.

Higher marginal tax rates discouraged investment. Complex tax brackets increased compliance costs. Businesses operating through the individual income tax code faced higher tax burdens than many competitors in neighboring states.

Beginning in 2003, lawmakers began modernizing Montana's tax code.

Major reforms reduced the number of tax brackets from ten to seven while lowering the state's top income tax rate from 11 percent to 6.9 percent.[2] Additional reforms enacted in 2021 dramatically simplified the tax code by reducing the number of brackets from seven to two and lowering tax rates to 4.7 percent and 6.5 percent.

[1] Montana Legislative Branch, *Overview of Individual Income Tax Filing Options in the United States, Montana, and the Other States* (February 2010).
[2] Ibid.

Subsequent legislation reduced the top rate to 5.9 percent and then to today's 5.4 percent.[3]

These changes represented more than simple tax reductions. They reflected a philosophical shift toward a tax system designed to encourage economic growth rather than simply maximize revenue collection.

Today, Montana enjoys one of the strongest state tax climates in the nation. According to the Tax Foundation's 2026 *State Tax Competitiveness Index*, Montana ranks among the top ten states for overall tax competitiveness.

Yet despite that progress, one important challenge remains. Montana still imposes one of the highest personal income tax rates among neighboring states.

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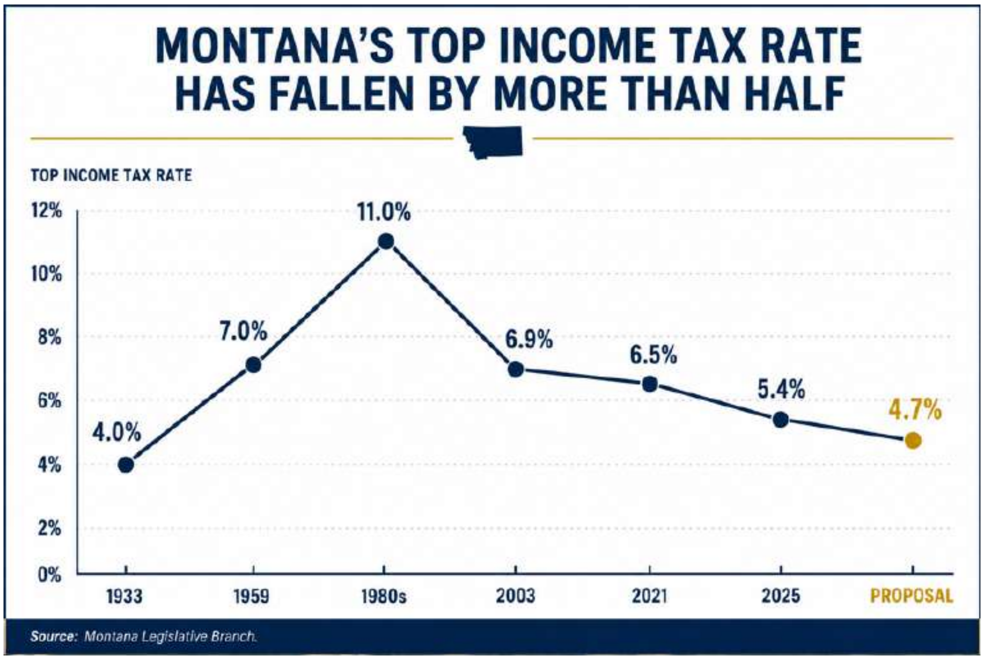


Lower Tax Rates Did Not Prevent Revenue Growth

One of the strongest arguments for continued tax reform comes from Montana's own experience.

Critics frequently argue that reducing income tax rates inevitably reduces government revenues and threatens funding for essential public services. While lower tax rates can reduce revenue in the short term, Montana's long-term experience demonstrates that economic growth matters just as much as tax rates.

[3] Montana Code Annotated § 15-30-103 (2003); Montana Legislative Branch historical tax summaries.

Since 2000, Montana's population has grown by approximately 26 percent.

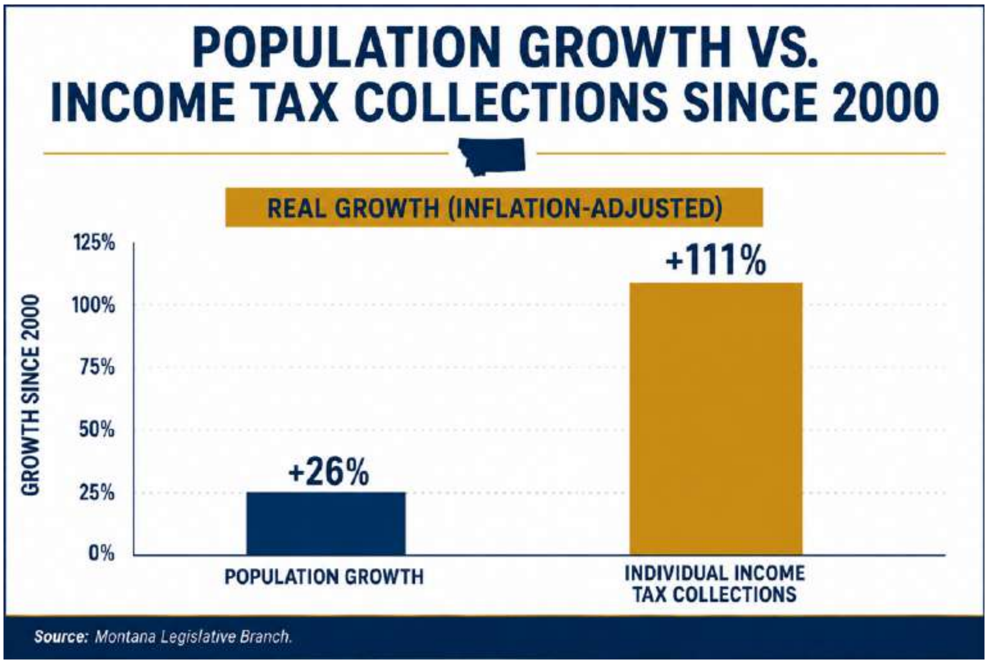
During that same period, however, individual income tax collections adjusted for inflation increased by approximately 111 percent—more than four times the rate of population growth. Corporate income tax collections also increased substantially despite repeated reductions in tax rates.

Those figures tell an important story.

As Montana's economy expanded, more people went to work, businesses generated higher incomes, investment increased, and taxable economic activity grew. A larger economy produced a broader tax base.

This does not necessarily mean tax cuts automatically "pay for themselves." Responsible tax reform still carries fiscal costs, and policymakers must carefully balance tax relief with the need to fund core government services. What Montana's experience does demonstrate is something equally important: lower tax rates and growing tax revenues are not mutually exclusive.

A competitive tax system can encourage economic growth that expands the tax base over time, helping offset a portion of the revenue effects associated with lower rates. That lesson provides an important foundation for evaluating Montana's next opportunity for tax reform.



The next logical question is whether Montana should stop here—or continue building upon the progress already made. To answer that question, it is helpful to examine what is happening across the rest of the country and why an increasing number of states are embracing flat income taxes.

Why states are moving to flat taxes

Tax reform is no longer simply about lowering tax rates.

Across the country, lawmakers are fundamentally rethinking how states tax income, and one trend has emerged above all others: the movement toward flat income taxes.

Just a decade ago, flat taxes were largely limited to a handful of states. Today, seventeen states either levy a flat income tax or are actively transitioning toward one, with ten making the switch within the last decade alone. From Arizona and Iowa to Mississippi, Georgia, and Ohio, lawmakers have increasingly concluded that simpler tax systems improve competitiveness while encouraging long-term economic growth.[4]

Montana has already embraced many of the same principles. By reducing the number of tax brackets from seven to two and lowering the top marginal rate from 6.9 percent to 5.4 percent, lawmakers significantly simplified the state's tax code. A transition to a single 4.7 percent rate would complete that process while positioning Montana alongside the growing number of states adopting flat taxes as the foundation of their economic strategy.

A Simpler Tax Code

Tax policy should accomplish two objectives. It should raise sufficient revenue to fund core functions of government, and it should do so with as little economic distortion as possible.

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Complex tax systems often fail both tests.

Graduated tax structures require multiple tax brackets, additional calculations, and increasingly complicated compliance requirements. While Montana has dramatically simplified its tax code over the past several years, maintaining multiple rates still introduces unnecessary complexity for taxpayers, employers, and tax administrators.

A flat income tax offers a simpler alternative. Under a flat tax, every taxpayer pays the same rate on taxable income. Individuals continue paying different total amounts based upon their income, but the tax rate itself remains constant. The result is a system that is easier to understand, easier to administer, and more transparent for taxpayers.

Every hour spent navigating unnecessary tax complexity is an hour not spent running a business, serving customers, or creating new opportunities.

[4] Tax Foundation, *The State Flat Tax Revolution: Where Things Stand Today*, October 8, 2025

Graduated tax systems increase the tax rate on each additional dollar earned as income rises. While intended to increase progressivity, higher marginal rates also reduce the reward associated with additional work, investment, and entrepreneurship.

For small businesses—many of which operate without dedicated accounting departments—simpler tax systems reduce compliance costs while allowing owners to focus on growth rather than paperwork.

Better Incentives for Growth

The strongest argument for a flat tax is not simplicity. It is economics.

Economists have long recognized that individuals respond to incentives. Workers decide whether to pursue promotions or additional hours based partly on the rewards they receive. Entrepreneurs evaluate whether launching a new business justifies the financial risk. Investors determine where to allocate capital based on expected returns.

Tax policy influences every one of those decisions. Graduated tax systems increase the tax rate on each additional dollar earned as income rises. While intended to increase progressivity, higher marginal rates also reduce the reward associated with additional work, investment, and entrepreneurship.

Flat taxes reduce those distortions. Because every additional dollar is taxed at the same rate, individuals retain more of the income generated through additional work or investment. Economists generally describe this as improving the neutrality of the tax system—allowing economic decisions to be driven by opportunity rather than tax consequences.

The Tax Foundation has described transitioning from graduated income taxes to low, single-rate systems as one of the most valuable tax reforms states can adopt to improve long-term economic competitiveness.[5]

That conclusion helps explain why the movement toward flat taxes has accelerated so rapidly across the country.

Most Montana Businesses Pay the Individual Income Tax

When many people hear the phrase "income tax," they think only about individual taxpayers. In reality, thousands of Montana businesses pay taxes through the individual income tax code.

These include:

- Sole proprietorships
- Partnerships
- Limited liability companies (LLCs)
- S corporations

[5] Ibid.

Unlike traditional C corporations, these businesses "pass through" their income to individual tax returns, where profits are taxed under the personal income tax system.

As a result, reducing Montana's personal income tax rate also functions as tax relief for many of the state's entrepreneurs and small businesses.

Lower rates allow these employers to retain more capital for hiring employees, purchasing equipment, expanding operations, and increasing wages. For a state whose economy is driven largely by locally owned businesses, this distinction is especially important.

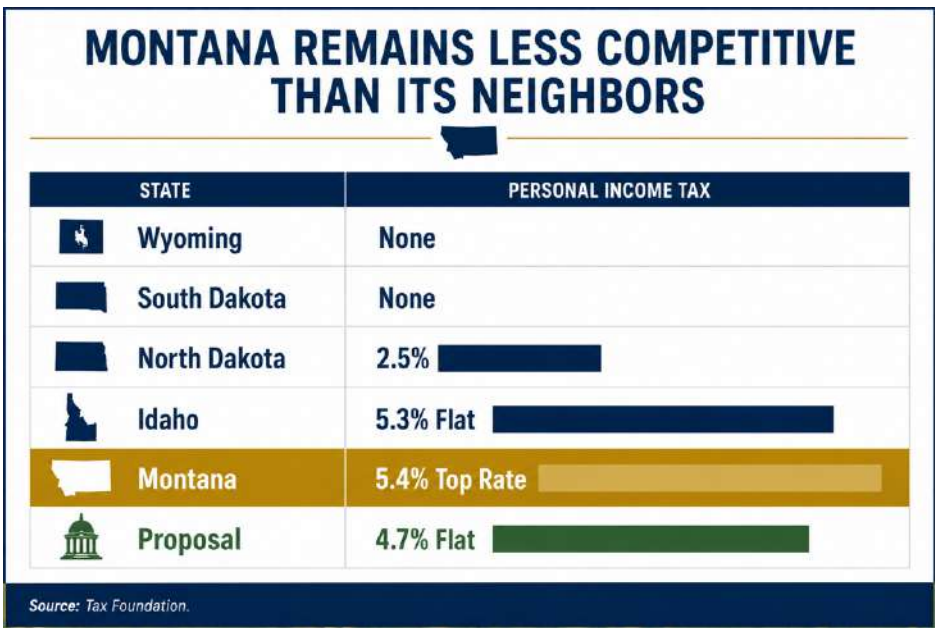
Staying Competitive in the Mountain West

Tax competition has become an increasingly important part of state economic policy.

Workers today enjoy greater mobility than at any point in history. Remote work has expanded employment opportunities across state lines. Businesses routinely evaluate tax climates when considering where to locate new facilities or expand existing operations. Entrepreneurs often have substantial flexibility in deciding where to launch new ventures.

In total, 17 states currently use (or are moving to) a flat income tax rate, including several "blue" states like Illinois (4.95%), Colorado (4.4%), Michigan (4.25%), and Pennsylvania (3.07%).

States recognize this reality. Neighboring Wyoming and South Dakota continue imposing no personal income tax. North Dakota's top marginal rate is only 2.5 percent. Idaho recently completed its transition to a 5.3 percent flat tax and continues discussing additional reductions.



While Montana has made substantial progress, it still imposes the highest personal income tax rate among its immediate neighbors other than Idaho—and Idaho has already moved to a flat-tax structure.

Adopting a 4.7 percent flat income tax is projected to increase after-tax income by approximately $396 per resident. Compared to a 2026 baseline, the projected increase rises to approximately $642 per resident.

Completing the Reform

Montana has not reached this point overnight. For more than two decades, lawmakers have systematically reduced tax rates, simplified the code, and improved the state's competitiveness. Those reforms have contributed to economic growth while helping position Montana among the nation's most competitive tax climates.

Adopting a 4.7 percent flat income tax is not a dramatic departure from that strategy.

What would a 4.7 percent flat income tax mean for families?

Tax policy debates often focus on tax rates, government revenues, and budget projections. While those issues are important, they overlook the question that matters most to Montana families: how would a 4.7 percent flat income tax improve my financial future?

The answer extends far beyond simply paying less in taxes.

Lower tax rates allow workers, families, and business owners to keep more of the income they earn. At the same time, lower marginal tax rates improve incentives for work, entrepreneurship, business investment, and economic expansion. As businesses grow and workers become more productive, wages increase, employment expands, and personal income rises.

Those two effects work together.

Taxpayers benefit directly from lower tax rates while also benefiting indirectly from a stronger economy.

To better understand those impacts, Mountain States Policy Center commissioned an independent economic analysis from Jared Walczak, one of the nation's leading tax economists. Using Montana-specific economic data and nationally recognized economic research, the analysis estimates how a 4.7 percent flat income tax would affect workers, families, businesses, and the state's economy over time.[6]

The findings are substantial.

1. **More Money in the Pockets of Montana Families**

Compared to full implementation of House Bill 337, adopting a 4.7 percent flat income tax is projected to increase after-tax income by approximately $396 per resident.[7] Compared to a 2026 baseline, the projected increase rises to approximately $642 per resident.[8] When combined with every major income tax

[6] Jared Walczak, *Estimated Economic Effects of Montana Adopting a 4.7 Percent Single-Rate Income Tax*, prepared for Mountain States Policy Center
[7] Ibid.
[8] Ibid.

reform enacted since 2021, Montana's cumulative tax reforms are projected to increase after-tax income by approximately $2,170 per resident.[9]

These figures are especially important because they represent more than tax savings alone. They capture two separate sources of economic benefit.

First, lower tax rates allow individuals to keep more of every dollar they already earn.

Second, lower marginal tax rates encourage additional economic activity. Businesses invest more, employment expands, wages increase, and personal income grows. Those higher earnings further increase after-tax income for Montana workers and families.

In other words, tax reform improves household finances from both directions

ESTIMATED INCREASE IN AFTER-TAX INCOME

SCENARIO	INCREASE PER RESIDENT
Compared to Full HB 337	+$396
Compared to 2026 Baseline	+$642
Since 2021 Tax Reforms	+$2,170

Source: Jared Walczak, Walczak Policy Consulting.

2. **A Stronger Economy**

Adopting a 4.7 percent flat income tax would increase Montana's annual gross state product by approximately $525 million compared to a 2026 baseline.[10]

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Gross state product measures the total value of all goods and services produced within Montana each year. An increase of more than half a billion dollars represents a significant expansion in statewide economic activity. That growth does not occur because government spends more money. It occurs because individuals and businesses respond to improved incentives.

[9] Ibid.
[10] Ibid.

Workers supply more labor. Entrepreneurs start more businesses. Employers invest in expansion. Capital flows toward more productive uses.

Each individual decision may appear small. Taken together, however, they create a stronger and more dynamic economy.

3. **Higher Wages for Workers**

As businesses invest in new equipment, expand operations, and compete for workers, productivity increases. More productive workers create greater economic value, allowing employers to offer higher compensation.

The economic analysis estimates that a 4.7 percent flat income tax would increase annual wages across Montana by approximately $286 million.[11] These higher wages represent one of the most overlooked benefits of tax reform.

Public discussions often focus exclusively on the direct reduction in tax liability. Yet for many workers, increased earnings generated by a stronger economy may ultimately exceed the immediate tax savings.

The analysis also projects that a 4.7 percent flat income tax would support approximately 2,445 additional full-time equivalent jobs throughout Montana.

Economic growth raises living standards. Higher wages make that growth tangible.

4. **More Jobs, More Businesses, More Opportunity**

The analysis also projects that a 4.7 percent flat income tax would support approximately 2,445 additional full-time equivalent jobs throughout Montana.[12]

Those jobs would not result from government programs or subsidies. They would emerge because businesses respond to a more competitive economic environment.

Some employers would expand existing operations. Others would invest in new facilities. Entrepreneurs would launch new businesses. Growing firms would hire additional employees.

No economic model can predict exactly where every new job will appear. What history consistently demonstrates, however, is that lower barriers to investment create stronger labor markets over time.

For Montana, that means greater opportunity not only for today's workforce but also for future generations choosing whether to build careers in the Treasure State.

[11] Ibid.
[12] Ibid.

ESTIMATED ECONOMIC EFFECTS OF A 4.7 PERCENT FLAT TAX

ECONOMIC MEASURE	PROJECTED IMPACT
Gross State Product	+$525 MILLION
Wages	+$286 MILLION
Jobs	+2,445
After-Tax Income	+$642 PER RESIDENT

Source: *Walczak Policy Consulting.*

The economic modeling tells a clear story.

A 4.7 percent flat tax would do more than reduce tax rates.

It would leave Montana families with more money in their pockets, increase wages, encourage business investment, create new jobs, and strengthen the state's long-term economic competitiveness.

The remaining question is one policymakers inevitably ask: can Montana afford it?

Can the state afford it?

Responsible tax reform requires more than good intentions. Lawmakers have an obligation to ensure Montana can continue funding core government responsibilities while maintaining a competitive economy. The question, therefore, is not whether a tax reduction affects government revenue—it almost certainly does. The more important question is how much, and whether the resulting economic growth justifies the cost.

Responsible tax reform requires more than good intentions. Lawmakers have an obligation to ensure Montana can continue funding core government responsibilities while maintaining a competitive economy.

That distinction is critical.

Tax policy should never be evaluated solely by examining how much revenue government collects. It should also be evaluated by considering how tax policy affects the people and businesses that generate those revenues in the first place.

For that reason, economists typically examine tax proposals using two different approaches: static scoring and dynamic scoring.

Higher personal incomes increase individual income tax collections. Greater consumer spending generates additional business activity. Expanding businesses increase corporate income tax collections. Together, these factors reduce the net fiscal impact of the proposal.

Static vs. Dynamic Analysis

A static analysis assumes that people do not change their behavior when tax rates change.

Under this approach, reducing the tax rate simply means the government collects less revenue. Workers are assumed to work the same hours. Businesses invest the same amount. Entrepreneurs make the same decisions. Economic activity remains unchanged.

While simple to calculate, static estimates ignore decades of economic research showing that people respond to incentives.

Dynamic analysis recognizes those responses.

When taxpayers keep more of each additional dollar they earn, businesses often invest more, workers increase labor participation, entrepreneurs pursue new opportunities, and consumers spend more of their income. Those changes generate additional economic activity, which in turn produces additional tax revenue.

Dynamic scoring does not assume tax cuts completely pay for themselves.

It simply recognizes that tax policy changes influence economic behavior, and those behavioral changes partially offset the initial revenue impact.

That is the approach used in the economic modeling prepared for Mountain States Policy Center.

The Fiscal Impact

Compared to a 2026 baseline, a 4.7 percent flat income tax is estimated to reduce state revenues by approximately $210 million using a traditional static estimate.[13]

After accounting for increased economic activity, however, the projected impact falls to approximately $192 million on a dynamic basis.[14]

The difference reflects additional revenue generated by a stronger economy.

Higher personal incomes increase individual income tax collections. Greater consumer spending generates additional business activity. Expanding businesses increase corporate income tax collections.

Together, these factors reduce the net fiscal impact of the proposal.

[13] Ibid.
[14] Ibid.

While a 4.7 percent flat tax would still represent a meaningful tax reduction, the long-term cost is smaller than static estimates alone would suggest because Montana's economy is projected to grow more rapidly under the reform.

STATIC VERSUS DYNAMIC REVENUE ESTIMATES

REVENUE ESTIMATE	FISCAL IMPACT
Static Estimate	-$210 MILLION
Dynamic Estimate	-$192 MILLION

Source: *Walczak Policy Consulting.*

Montana's Experience Suggests Growth Matters

Economic modeling provides valuable insight into the future. Montana's own experience provides evidence from the past.

Over the last two decades, lawmakers have repeatedly reduced individual income tax rates while simplifying the tax code. During that same period, Montana experienced sustained population growth, rising personal incomes, expanding employment, and record tax collections.

Perhaps the most striking comparison is this:

Since 2000, Montana's population has grown by approximately 26 percent. Over that same period, however, inflation-adjusted individual income tax collections increased by approximately 111 percent.

Since 2000, Montana's population has grown by approximately 26 percent. Over that same period, however, inflation-adjusted individual income tax collections increased by approximately 111 percent.

Corporate income tax collections also increased substantially.

These figures demonstrate an important principle. Economic growth expands the tax base.

As more people move to Montana, businesses expand, wages increase, and investment grows, the state collects revenue from a larger and more prosperous economy.

No serious economist argues that tax cuts always pay for themselves. Nor should policymakers assume that every tax reduction automatically generates enough growth to fully replace lost revenue.

But Montana's experience does demonstrate that lower tax rates and stronger public finances are not mutually exclusive.

The state's own history suggests that tax reform can coincide with substantial long-term revenue growth when supported by a growing economy.

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The Cost of Doing Nothing

Tax policy discussions often focus exclusively on the cost of action. Far less attention is paid to the cost of inaction.

Montana does not compete in a vacuum. Neighboring states continue improving their tax climate. Wyoming and South Dakota impose no personal income tax. North Dakota maintains one of the nation's lowest top marginal rates. Idaho has already transitioned to a flat income tax and continues pursuing additional reforms.

Every year that competing states improve their tax systems while Montana stands still, the state's relative competitive position weakens.

That does not mean businesses will suddenly leave Montana, or families will immediately relocate elsewhere.

Competitive advantages are rarely lost overnight. Instead, they erode gradually.

The next manufacturing facility may locate elsewhere. A growing business may choose to expand across state lines. An entrepreneur deciding where to launch a company may simply find another state more attractive.

Over time, those individual decisions accumulate. The result is slower investment, slower job growth, and fewer opportunities for future generations.

The true cost of tax policy is therefore measured not only by what government gives up in revenue today, but also by what the economy fails to produce tomorrow.

Conclusion

Montana's economy has demonstrated remarkable resilience over the past two decades.

Lawmakers have simplified the tax code, reduced rates, and strengthened the state's competitive position.

The independent economic modeling presented in this study suggests that continuing along that path would generate additional economic growth, higher wages and after-tax income, and thousands of new jobs.

The evidence points in a clear direction.

The question is no longer whether Montana has benefited from tax reform. The question is whether the state is willing to complete the work it has already begun.

Nothing in this publication shall be construed as an attempt to aid or hinder the passage of any legislation.