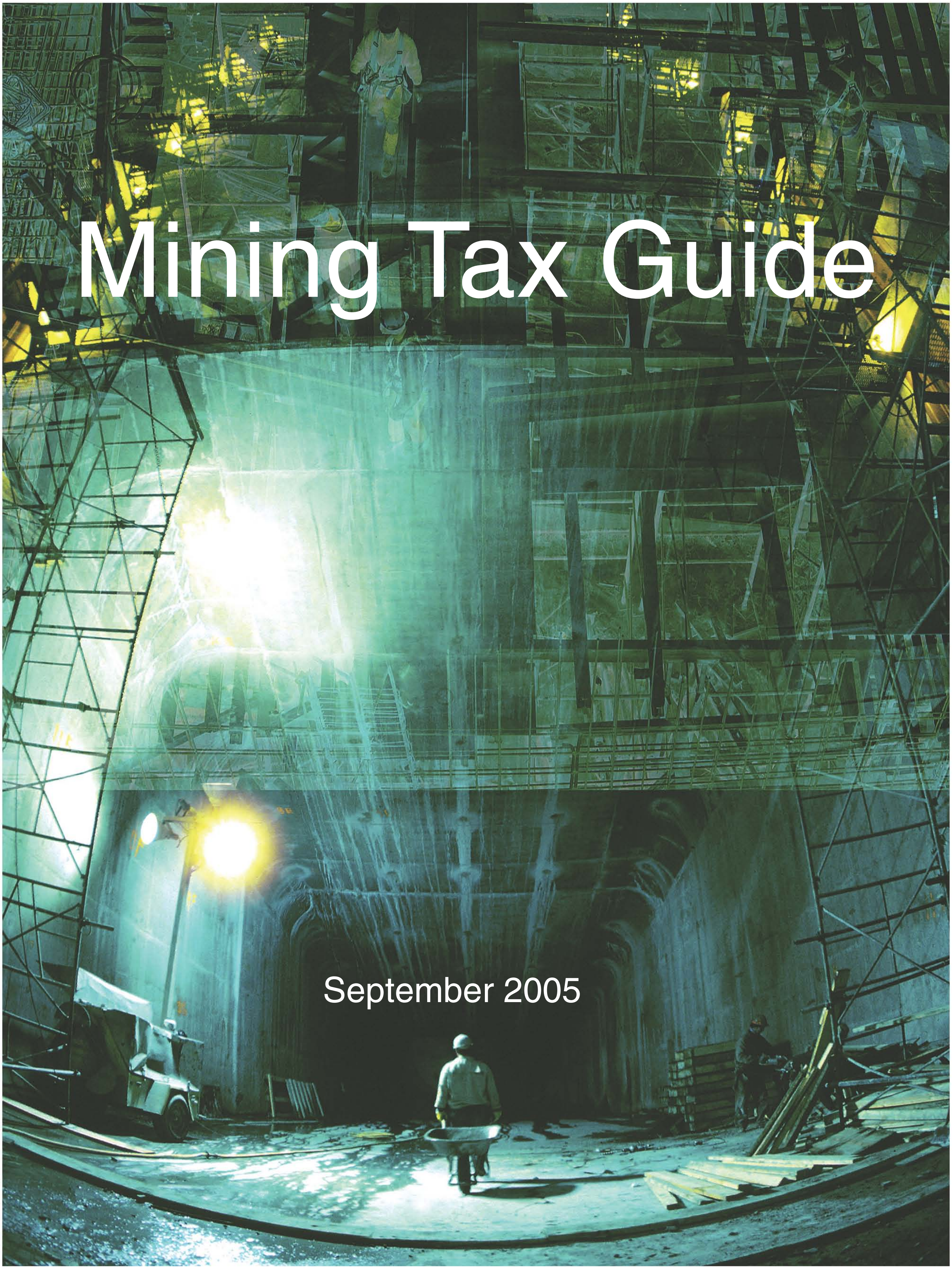
Mining Tax Guide



September 2005

2005 Distribution of Taconite Production Tax

2004 Production Year

Total Taconite Production Tax
$87,422,758*
Production tax is $2.137 per taxable ton.
The three-year average taxable tonnage was 37,090,691 tons.

* $8,159,952 is included from the state general fund. (22.0 cpt)

Cities and townships — $11,033,407 — 29.7 cpt
- City and Township Fund** $2,045,317 5.5 cpt
- Taconite Municipal Aid** $6,453,011 17.4 cpt
- Taconite railroad $591,142 1.6 cpt
- Mining effects** $1,766,911 4.7 cpt
- Transferred from schools for city/township levy reduction $177,026 0.5 cpt

School districts — $17,533,369 — 47.3 cpt
- Taconite School $0.0343 Fund** $1,524,414 4.1 cpt***
- Regular School $.1372 Fund** $5,797,758 15.6 cpt***
- Taconite railroad $1,106,935 3.0 cpt ***
- Taconite Referendum $4,469,529 12.1 cpt
- School bond payments $4,634,733 12.5 cpt

*** 22.7 cents per ton will be subtracted from state aids or levies a taconite school district would otherwise receive.

Counties — $13,532,657 — 36.5 cpt
- Regular County Fund** $10,084,303 27.2 cpt
- County Road and Bridge Fund** $2,663,977 7.2 cpt
- Taconite railroad $784,377 2.1 cpt

Property tax relief and misc. — $13,622,591 — 36.7 cpt
- Taconite Property Tax Relief $13,518,201 36.4 cpt
- Range Association of Municipalities and Schools** $104,390 0.3 cpt

IRRRB — $20,471,520 — 55.2 cpt
- IRRRB Fund** $3,033,394 8.2 cpt
- IRRRB Fixed Fund $1,252,520 3.4 cpt
- Taconite Env. Protection Fund $9,929,923 26.8 cpt
  - Producer Grant & Loan Fund $3,115,619 8.4 cpt
  - Douglas J. Johnson Economic Protection Trust Fund $3,140,064 8.4 cpt
  - Guarantee Fund M.S. 298.225 M.S. 298.293

**Payments to the funds are guaranteed at a percentage level of the base year (1983 or 1999) by M.S. 298.225 for local aids and M.S. 298.293 for property tax relief.

Taconite Economic Development Fund — $11,229,214 — 30.3 opt

cpt = cents per taxable ton

Table of Contents

Minerals and Mining Agencies

MINNESOTA DEPARTMENT OF REVENUE (MNDOR)
600 North Robert Street, St. Paul, MN 55101 (651) 296-3403
Fax: (651) 297-5309

DANIEL A SALOMONE, Commissioner
GEORGE HOYUM, Director, Special Taxes Division (651) 297-2151

Minerals Tax Office
612 Pierce Street, Eveleth, MN 55734-1611 (218) 744-7420
Fax: (218) 744-7421

THOMAS W. SCHMUCKER, Admin. Engineer tom.schmucker@state.mn.us
ROBERT WAGSTROM, Mining Engineer bob.wagstrom@state.mn.us
NORMA J. KROGERUS, Revenue Tax Specialist norma.krogerus@state.mn.us
CAROLYN KOSKELA, Secretary carolyn.koskela@state.mn.us

IRON MINING ASSOCIATION
505 Lonsdale Bldg
302 West Superior Street (218) 720-7724
Duluth, MN 55802 Fax: (218) 720-6707

FRANK ONGARO, JR, President fongaro@taconite.org

IRON RANGE RESOURCES (IRR)
P. O. Box 441, 4261 Hwy 53 South, Eveleth, MN 55734 (218) 744-7400
Fax: (218) 744-7403
SANDY LAYMAN, Commissioner sandy.laymen@ironrangeresources.org
BRIAN HITI, Deputy Commissioner brian.hiti@ironrangeresources.org
MATT SJOBERG, Director, Development Strategies
matt.sjoberg@ironrangeresources.org
RAY SVATOS, Manager, Mineland Reclamation ray.svatos@ironworld.com
JEAN DOLENSEK, Adm. Services Director jean.dolensek@ironrangeresources.org
DOUG GREGOR, Assistant Attorney General doug.gregor@ironrangeresouces.org
DANIEL JORDAN, Mining Program Coordinator dan.jordan@ironrangeresources.org

MINNESOTA DEPARTMENT OF NATURAL RESOURCES (DNR)
500 Lafayette Road, St. Paul, MN 55155 (651) 296-4807
Fax: (651) 296-4799
GENE MERRIAM, Commissioner

DNR Lands & Minerals Division
500 Lafayette Road, St. Paul, MN 55155 (651) 296-4807
Fax: (651) 296-5939
BILL BRICE, Director (651) 296-9553
KATHY LEWIS, Transaction Manager (651) 296-9564
DAVE OLSON, Assistant Director
DENNIS MARTIN, Mineral Potential (651) 297-1125

Lands & Minerals Division
1525 Third Avenue East, Hibbing, MN 55746 (218) 262-6767
Fax: (218) 262-7328

MARTY VADIS, Assistant Director
ARLO KNOLL, Reclamation Manager
PETER CLEVENSTINE, Manager of Engineering

NATURAL RESOURCES RESEARCH INSTITUTE
University of Minnesota, Duluth
5013 Miller Trunk Hwy., Duluth, MN 55811 (218) 720-4294
Fax: (218) 720-4219
MICHAEL LALICH, Director
DONALD FOSNACHT, Director
Center for Applied Research and Technology (218) 720-4282
Larry Zanko, Research Fellow (218) 720-4274

Coleraine Minerals Research
Box 188, Coleraine, MN 55722 (218) 245-4204
Fax: (218) 245-4219
DAVID HENDRICKSON, Director, Minerals Research

ST. LOUIS COUNTY INSPECTOR OF MINES
St.Louis Co.Garage
7823 Highway 135 East, Virginia, MN 55792 (218) 742-9840

BARRY D LESAR , Inspector of Mines

The *Minnesota Mining Tax Guide* is published by the Minnesota Department of Revenue. Alternative formats for persons with visual impairments or other disabilities are provided upon request.

For persons with hearing impairments, call TTY (651) 297-2196 or toll-free through the Minnesota Relay Service at 711.

The 2005 Mining Tax Guide can be found on the Minnesota Department of Revenue website:

To find the guide:
- At the bottom of the home page, click on Publications
- Scroll down to Other Publications
- Click on 2005 Minnesota Mining Tax Guide

Minerals tax forms and information:
http://www.taxes.state.mn.us/taxes/special/mineral

Contact Information:
Minerals Tax Office
612 Pierce Street
Eveleth MN 55734
Phone (218) 744-7420

Introduction

The *Minnesota Mining Tax Guide* is published to identify all Minnesota mining-related taxes paid by the mining industry. This book strives to simplify the complicated tax statutes using language that is easy to understand and non-technical narratives, tables, graphs and flowcharts.

Taconite Production Tax

The taconite production tax is the largest tax paid by the iron mining industry. It is a major source of revenue to the counties, municipalities and school districts within the taconite relief area.

The production tax distributed in 2005 is the tax due for the 2004 production year. The taconite production tax rate for concentrates and pellets produced in 2004 was $2.137 per taxable ton. The taxable tonnage for 2004 is the average tonnage produced in 2002, 2003 and 2004.

The inside of the front cover illustrates where the production tax is distributed. It shows both the cents per ton (cpt) distribution and the total amount distributed to various funds. The funds to which the production tax are distributed are explained on pages 7 through 10, *Distribution of Funds.*

State Taxes

Other major taxes paid by the mining industry are the occupation tax, similar to an income tax, pages 27 - 35, and sales and use tax, pages 39 - 41. These taxes are deposited in the State General Fund.

County Taxes

Other taconite and iron ore ad valorem (property) taxes are paid directly to the counties, pages 43 - 49. These are property taxes assessed on taconite railroads, unmined taconite ore, auxiliary mining lands, unmined natural ore and severed mineral interests.

Taxes on Other Minerals

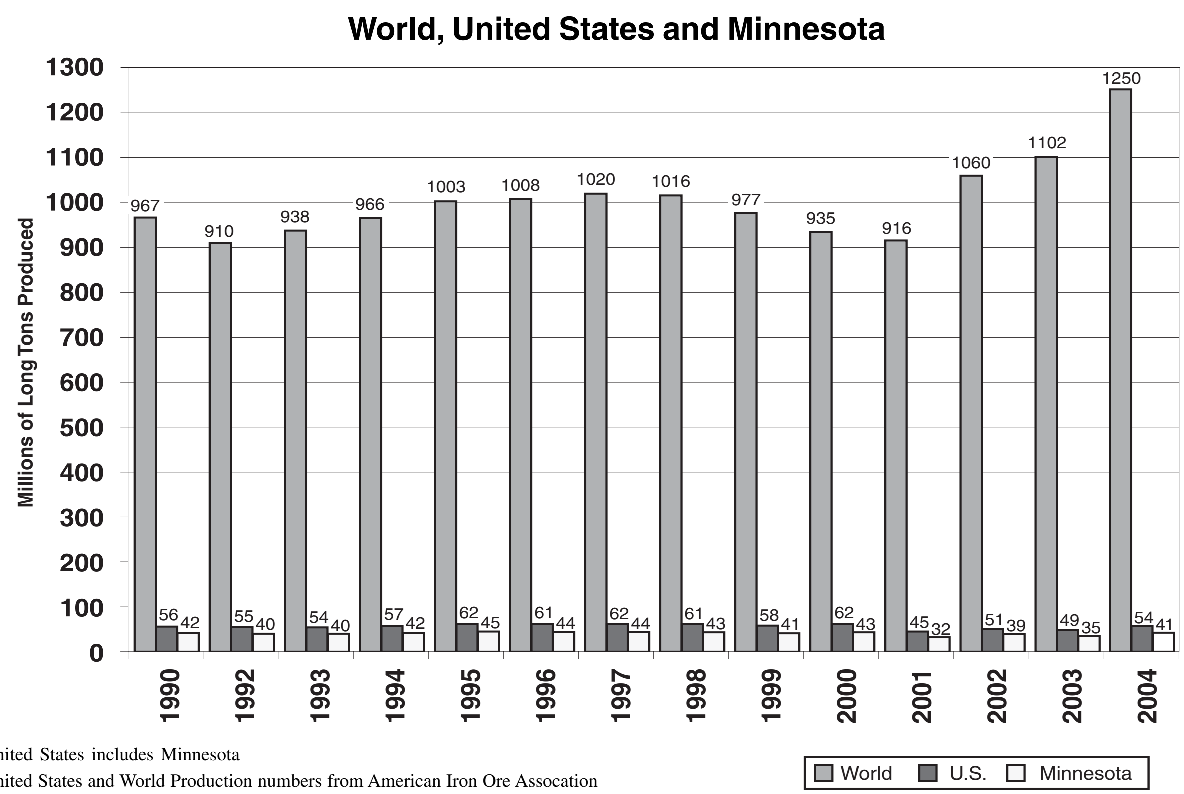
Taxes on minerals other than taconite or iron, such as gold, silver, copper, nickel, lead and other nonferrous minerals are explained on pages 50 - 52.

Aggregate Material Sales/Use Tax

An explanation of sales and use tax on aggregate material is found on page 42.

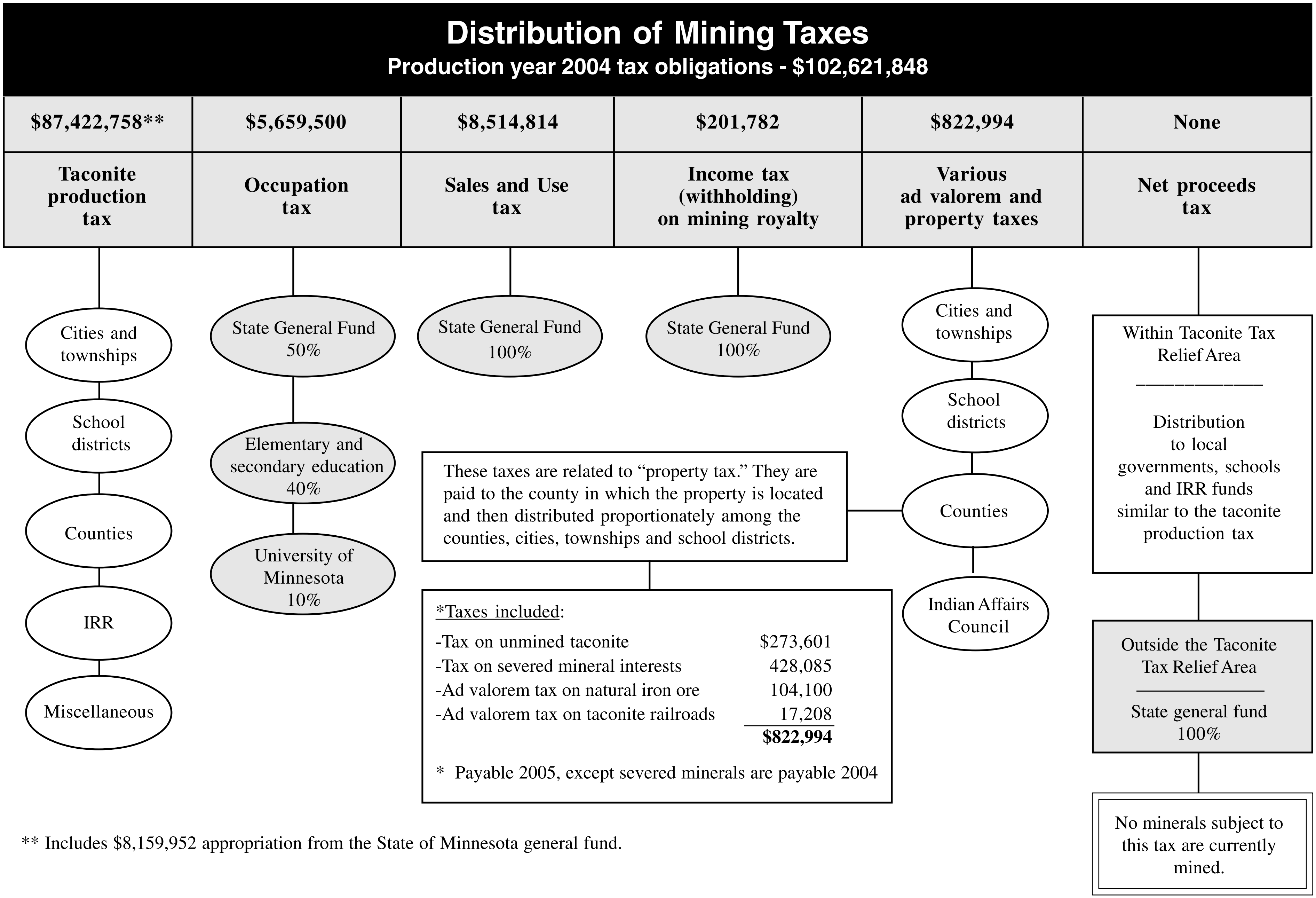
Iron Ore Production Comparison

Figure 1



United States includes Minnesota
United States and World Production numbers from American Iron Ore Assocation
Starting with 2002 Production, numbers are from the U.S.Geological Survey

Figure 2



** Includes $8,159,952 appropriation from the State of Minnesota general fund.

Figure 3

History of Minnesota Taconite Production

Year	Butler	Eveleth	Hibbing	Inland	Erie	National	Reserve	Minntac	Total
1950	–	–	–	–	129,666	–	–	–	129,666
1951	–	–	–	–	99,977	–	–	–	99,977
1952	–	–	–	–	101,325	–	13,071	–	114,396
1953	–	–	–	–	228,499	–	257,435	133,504	619,438
1954	–	–	–	–	180,669	–	316,628	413,059	910,356
1955	–	–	–	–	195,979	–	521,200	623,491	1,340,670
1956	–	–	–	–	211,698	–	4,238,729	618,452	5,068,879
1957	–	–	–	–	487,303	–	5,558,262	766,739	6,812,304
1958	–	–	–	–	2,953,993	–	4,837,258	747,033	8,538,284
1959	–	–	–	–	4,109,000	–	3,763,189	542,106	8,414,295
1960	–	–	–	–	7,144,214	–	5,446,342	799,365	13,389,921
1961	–	–	–	–	6,772,654	–	5,652,522	761,913	13,187,089
1962	–	–	–	–	7,593,349	–	6,153,812	771,890	14,519,051
1963	–	–	–	–	7,852,473	–	8,044,362	798,405	16,695,240
1964	303	–	–	–	8,009,243	–	9,667,975	827,713	18,505,234
1965	10,700	52,826	–	–	8,039,657	–	10,023,520	877,459	19,004,162
1966	70	1,536,370	–	–	8,551,944	–	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	–	–	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	–	–	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	–	–	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	–	–	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	–	–	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	–	–	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	–	–	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	–	–	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	–	–	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	–	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
					LTV				
1987	–	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	Closed	7,668,870	32,043,049
1988	–	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	–	11,848,960	39,485,232
1989	–	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	–	11,846,319	39,330,197
							Cyprus/ Northshore		
1990	–	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	–	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	–	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	–	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	–	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
							Northshore/CCI		
1995	–	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	–	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	–	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
1998	–	4,773,026	7,608,548	2,550,795	6,657,167	5,260,207	4,182,872	13,291,377	44,323,992
1999	–	4,342,770	6,623,571	2,658,663	6,593,497	5,225,632	3,678,803	12,169,971	41,292,907
2000	–	3,850,443	8,008,869	2,698,927	7,305,807	5,459,565	4,075,170	13,561,035	44,959,816
2001	–	4,159,792	5,891,288	2,629,420	69,209	4,371,589	2,648,289	11,858,907	31,628,494
2002	–	4,204,799	7,408,541	2,661,129	0	5,463,637	3,979,283	13,794,178	37,511,567
		United Taconite				**Keewatin Taconite**			
2003	–	1,630,242*	7,769,999	2,657,673	–	4,376,891*	4,683,657	13,231,018	34,349,480
2004	–	4,030,871	8,101,948	2,693,971	–	5,343,915	4,912,594	14,327,728	39,411,027
Totals	40,125,707	138,808,594	193,069,580	62,073,363	323,555,072	141,740,118	273,303,296	417,889,300	1,590,565,030

Numbers after 1986 do not include flux. Beginning with 1990, all weights are dry. Taconite production tax report tonnages.
*1,552,080 of the 1,630,242 is EVTAC and 78,162 is United Taconite; 1,736,758 of the 4,376,891 is National and 2,640,133 is Keewatin Taconite

Figure 4

Minnesota Taxes Levied on Taconite

Production year(s)	Unmined taconite tax	Use tax (net)[1]	Production tax	Occupation tax[2]	Royalty tax[3]	School bonds	Railroad gross earnings tax[4]	Total taxes	Total tons produced[5]	Total taxes per ton
1914-50	–	–	$4,536	–	$3,345	–	–	$7,881	N/A	N/A
1951-55	–	–	178,523	–	57,671	$122,625	$11,083	369,902	N/A	N/A
1956-60	–	–	2,457,832	$1,046,907	1,730,615	6,410,394	2,570,566	14,216,314	42,259,000	$.34
1961-65	–	–	4,884,757	6,830,282	1,926,246	8,372,662	5,843,668	27,857,615	81,923,000	.34
1966-70	$64,000	–	12,558,526	10,726,680	3,519,487	7,518,661	7,982,248	42,369,602	145,015,000	.29
1971-75	64,000	$7,214,111	65,013,384	44,909,601	9,262,076	3,841,750	12,321,573	142,626,495	192,013,000	.74
1976-80	471,966	45,967,313	324,497,931	78,350,978	18,142,273	852,437	14,733,733	483,016,631	214,883,632	2.25
1981-85	1,573,792	36,976,524	376,270,806	63,263,212	20,447,300	2,740,712	10,904,721	512,177,067	166,940,177	3.07
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989	355,065	10,899,500	72,149,188	349,691	2,645,527	862,122	–	87,474,315	39,330,197	2.22
1990	352,935	13,022,869	78,929,646	2,057,281	–	980,368	266,879	95,609,978	42,521,636	2.25
1991	349,551	11,385,280	82,411,317	2,007,906	–	994,841	263,692	97,412,587	39,921,950	2.44
1992	355,596	11,255,028	82,035,382	1,551,335	–	1,010,205	139,193	96,346,739	38,849,871	2.48
1993	352,119	11,683,161	80,195,972	1,708,731	–	1,020,631	143,079	95,103,693	39,850,287	2.39
1994	488,176	13,136,780	81,500,355	2,301,596	–	917,810	140,841	98,485,558	41,676,909	2.36
1995	467,946	14,494,154	85,704,654	3,158,565	–	925,112	233,034	104,983,465	45,001,184	2.33
1996	455,792	11,980,487	90,512,836	2,460,000	–	612,273	123,682	106,145,070	43,873,638	2.42
1997	444,630	11,920,451	94,704,666	2,508,206	–	705,767	122,694	110,406,414	44,815,648	2.46
1998	402,543	8,186,527	94,268,103	2,121,421	–	659,039	121,413	105,759,046	44,323,992	2.39
1999	401,764	4,412,174	93,063,942	2,225,000	–	–	116,326	100,219,206	41,292,907	2.43
2000	397,428	6,131,394	94,540,947*	2,183,000	–	–	108,262	103,361,031	44,959,816	2.30
2001	316,140	(1,652,702)	72,842,808*	56,153	–	–	71,861	71,634,260	31,628,494	2.26
2002	317,033	844,287	74,814,128*	1,340,700	–	–	24,636	77,340,784	37,511,567	2.06
2003	300,173	1,197,577	72,497,652*	1,441,500	–	–	20,483	75,457,385	34,349,480	2.20
2004	273,601	8,514,814	79,262,806*	5,659,500	–	–	17,208	93,727,929	39,411,027	2.38

Taxes often levied (assessed) for one year and paid in the following year

1. Total use tax less total refunds paid after 1990, see *Figure 34,* page 40.
2. Amount Paid (unaudited).Does not include adjustments.
3. Repealed effective after December 31, 1989.
4. Repealed effective after December 31, 1988. Beginning with payable 1990, taconite railroads were taxed on an ad valorem basis.
5. Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.

* Full amount of tax levied. Does not included bankruptcy adjustments or state appropriations.

Taconite Production Tax

(Minnesota Statutes 298.24 and 298.28)

General Information

Definition

The taconite production tax is a severance tax paid on concentrates or pellets produced by the taconite companies. It is paid in lieu of ad valorem (property) taxes on taconite and lands containing taconite. Land and structures used in the production of taconite are also excluded from property tax, with some exceptions (see pages 47 and 48). Electric power plants principally devoted to the generation of power for taconite mining and concentrating are considered to be used in the production of taconite (or direct reduced ore) and are covered by the *in lieu exemption* for property taxes. If part of the power is used for other purposes, that proportion of the power plant is subject to the general property tax. The power plant must be owned by a company subject to production tax to qualify for the exemptions.

Tax Rate

The taconite production tax rate for any given year is determined by multiplying the prior year's rate by the percentage change in the Gross Domestic Product Implicit Price Deflator (GDPIPD) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The U.S. Department of Commerce publishes the GDPIPD monthly in Survey of Current Business. This escalator takes effect each year unless the rate is frozen or changed by the Minnesota State Legislature. The escalator was allowed to take effect for concentrates produced in 2004. The tax rate for the 2004 production year was $2.137 per taxable ton. For concentrates produced in 2005, the rate is the same as 2004.

Taxable Tons

The production tax is levied on taxable tons, which are the average tons produced during the current year and the previous two production years. This eliminates the peaks and valleys of tax payments by the taconite producers and distribution to the tax recipients. The result is a more stable tax base resembling a property tax.

Distribution

Under Minnesota law, production tax revenues are distributed to various cities, townships, counties and school districts within the Taconite Assistance Area. This is an area comprising the present taconite mining areas plus areas where natural ore was formerly mined.

Funds are also allocated to the Iron Range Resources (IRR), which administers the Taconite Environmental Protection Fund, the Douglas J. Johnson Economic Protection Trust Fund, the Taconite Economic Development Fund (sometimes referred to as the Investment Tax Credit), the Taconite Assistance Program and other loan and grant programs for both the range cities and townships and the taconite industry. More information about the IRR can be found on pages 23 - 26.

Payment Dates and Method

In past years the taconite production tax has been due and payable by electronic funds transfer on February 24 each year. If the 24th falls on a weekend or holiday, the payment date is the next regular work day. For taxes payable in 2004 and thereafter, the payments will be due 50 percent on February 24 and 50 percent due on August 24. The Department of Revenue must notify each taconite producer of its tax obligation by February 15.

Each taconite producer must make payments to six counties and the IRR on or before the due date. Payments are made to Aitkin, Cook, Crow Wing, Itasca, Lake and St. Louis Counties, and to the IRR. The county auditors then make payments to cities, townships and school districts.

Producer Grant & Loan Fund
(M.S. 298.2961)

The producer grant program was renewed by the 2005 legislature. The amount allocated is 5 cents per ton plus the revenue generated by the tax rate increase for the 2004 production year. The 2005 distribution is entirely allocated to the City of Virginia for the steam heating system. The 2006 distribution is allocated to the cities of Hibbing and Virginia public utilities for biomass conversion. The 2007 distribution is allocated to the City of Tower for the East Two Rivers project. For distributions in 2008 and later, amounts may be allocated to joint ventures with mining companies for reclamation of lands containing abandoned or worked out mines.

Taconite Economic Development Fund (M.S. 298.227)

The Taconite Economic Development Fund (TEDF) was first created for production years 1992 and 1993 at a rate of 10.4 cents per taxable ton (cpt).

No distribution is made under the TEDF or the Producer Grant Program in any year in which total industry production falls below 30 million tons. (Note: The 30 million ton minimum was suspended for the 2002 production year only). Any portion of the TEDF fund not released within two years of deposit is divided, with two-thirds to the Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. To date, all funds have been approved and released to the taconite producers before the two-year deadline expiration. The 2001 legislature made the TEDF permanent at 30.1 cents per ton for distributions in 2002 and thereafter.

The Taconite Economic Development Fund (TEDF) continues at 30.1 cents per ton for distributions in 2004 and thereafter. A matching expenditure of at least 50 percent is required to qualify for the additional 14.7 cents per ton (above 15.4 cents).

Each producer has two potential sources of TEDF money:

1. **Acid or flux pellets** — The production tax amount credited to each producer's share of the Taconite Economic Development Fund is 30.1 cpt.

2. **Pellet chips and fines** — This remains the same as last year—an amount equal to 50 percent of the tax for pellet chips and fines, sold not exceeding 5/16-inch, is allocated to each company's share of the Taconite Economic Development Fund. The total amount may not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is based on current production year **sales** of chips, fines and concentrate—not the three-year average of production. Sales of crushed pellets *do not* qualify for this credit. (M.S. 298.28, Subd. 9(a), paragraph (b).)

Therefore, each company is eligible to receive 30.1 cents per taxable ton plus an additional amount based on current year tons of chips and fines sold. A list of TEDF-funded projects and yearly distributions is shown in *Figure 21* on page 25.

Flux Pellets

Flux pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. Three companies, Minorca, Northshore and USX, produce fluxed pellets, although all have experimented with them. United Taconite, Hibbing Taconite, Keewatin Taconite and Northshore are producing a partially fluxed pellet containing a low percentage of limestone additives.

M.S. 298.24, Subd. 1, (f) allows the weight of flux added to be subtracted from the pellet weight for production tax purposes. All tables in the *Minnesota Mining Tax Guide* with production statistics use an equivalent or calculated weight for fluxed pellets. The taxable weight is the dry weight less the weight of the flux. The weight of the flux is determined by a metallurgical calculation based on the analyses of the finished pellet, the concentrate and the flux stone. Beginning in 1988 (1987 production year), a flux credit was allowed against production tax.

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the flux weight is shown on *Figure 26*, page 32.

Pellet Weighing

Pellet tonnages are reported on a dry weight basis. This began with the 1990 production year.

Definition of Taconite Tax Relief Area

One common prerequisite exists for all taconite aids and grants; the recipient must be within the geographic confines of the Taconite Tax Relief Area or the Taconite Assistance Area. This is defined by state laws (M.S. 273.134 & M.S. 273.1341) as follows:

"Tax relief area" means the geographic area contained within the boundaries of a school district that meets the following qualifications:

(1) It is a school district in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property and whose boundaries are within 20 miles of a taconite plant; or

(2) It is a school district in which, on Jan. 1, 1977, or the applicable assessment date, there is a taconite concentrating plant or where taconite is mined or quarried or where there is located an electric generating plant which qualified as a taconite facility.

Definition of Taconite Assistance Area

A "taconite assistance area" means the geographic area that falls within the boundaries of a school district that contains a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property. Any area within the Taconite Tax Relief Area is also considered to be within the Taconite Assistance Area.

State Contribution

(298.285 State Aid Amount; Appropriation)

The commissioner of revenue shall determine a state aid amount equal to a tax of 33 cents per taxable ton or iron ore concentrates for production year 2001 and 22 cents per taxable ton or iron ore concentrates for production years 2002 and thereafter. There is appropriated from the general fund to the commissioner an amount equal to the state aid determined under this section. It must be distributed under section 298.28, as if the aid were production tax revenues.

2005 Legislation

Production Tax

Several items affecting production taxes were passed during the 2005 legislative session and special session. The tax rate for conentrates produced in 2005 was frozen at the 2004 rate of $2.137 per taxable ton.

The definition of direct reduced ore (DRI or iron nuggets) was further clarified by the 2005 legislature. "Commercial production" was defined as production of more than 50,000 tons of direct reduced ore in any year. "Non-commercial production" is production of 50,000 tons or less in any year. The special direct reduced ore tax rate applies only to commercial production. Thus, the first two years of zero tax rate for DRI will not be "used up" during non-commercial or pilot plant production years. The taconite concentrate consumed in the non-commercial production of direct reduced ore is subject to the regular taconite producton tax rate in effect for that year.

The former "Producer Grant" program was amended to be a Grant and Loan Fund. This program is funded at 5 cents per taxable ton plus $1,261,083 which is the amount of the 2004 tax rate escalation. A detailed description is found on page 5 under Producer Grant & Loan Fund.

The IRR is authorized to issue $15,000,000 in bonds to make grants to school districts within the taconite relief area and taconite assistance area. An amount sufficient to pay principal and interest on the bonds is appropriated from distribution to the taconite environmental protection fund and Douglas J. Johnson environmental protection trust in equal shares.

Distribution of Funds (Minnesota Statute 298.28)

Subd. 2 - Taconite Cities and Towns Fund

(a) The Taconite Cities and Towns Fund allocates 4.5 cents per ton to cities and towns where taconite mining and concentrating occur. Forty percent (1.8 cpt) goes to cities and townships in which mining activity occurs. The remaining 60 percent (2.7 cpt) goes to cities and townships in which concentrating taconite occurs. *Note: This is done on a company-by-company basis.*

If both mining and concentrating take place in a single taxing district, the entire 4.5 cents is allocated there. If mining occurs in more than one city or town, the revenue (1.8 cpt) is divided based on either a percentage of taconite reserves or a four-year production average. Most taconite mines have mining in two or more areas.

If concentrating is split between two or more cities or towns, the revenue (2.7 cpt) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples are Northshore (Babbitt, Beaver Bay Township and Silver Bay), former LTV (Hoyt Lakes and Schroeder Township-LTV powerplant), EVTAC and United Taconite (Eveleth, Fayal Township, and McDavitt Township). Beaver Bay Township qualifies due to the location of the tailing basin that is part of the concentrating process. Distribution detail is shown in *Figure 10,* page 16.

(b) Mining Effects — Four cents per taxable ton is allocated to cities and organized townships affected by mining because their boundaries are within three miles of a taconite mine pit that was actively mined in at least one of the prior three years. If a city or town is located near more than one mine meeting the criteria, it is eligible to receive aid calculated from only the mine producing the largest taxable tonnage. When more than one municipality qualifies for aid based on one company's production, the aid must be apportioned between the municipalities in proportion to their populations. One-half of the money must be used for infrastructure improvement projects and one-half for projects in which two or more municipalities cooperate.

The IRR has provided some guidelines for appropriate use of these funds:

1. One half for infrastructure improvement projects:
   - Public buildings - construction or major maintenance; does not include normal cleaning and maintenance or janitorial services.
   - Water and sewer systems
   - Streets, sidewalks, roads and bridges
   - Parks and recreational facilities
   - Public trails
   - Does not include mobile equipment

2. One-half for cooperative projects between two or more communities:
   - Parks and recreational facilities
   - Public trails or other community facilities
   - Public services such as recreational activities, law enforcement and fire protection
   - Other joint ventures

Use of mining effects fund is not limited to the above examples. Cooperative projects are not limited to communities that receive a mining effects distribution. For example, community A, which receives mining effects aid, can undertake a project with community B, which does not.

A community should report to the IRR by January 15 of the year following the receipt of the mining effects aid. Reports should be submitted to Richard Walsh, Grants Administrator, IRR, 4261 Hwy 53 South, P.O. Box 441, Eveleth, MN 55734.

Subd. 3 - Taconite Municipal Aid Account

(a) The Taconite Municipal Aid is funded at 12.5 cents per taxable ton. The Kinney-White allocation (par. b) and the .2 cent RAMS allocation in Subd. 8 are subtracted from it. The payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. The amount is then reduced according to the percentage aid guarantee provisions in M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, population and fiscal need factors.

The first step in this formula is to determine the *fiscal need factor* (FNF). The FNF is a three-year average of the sum of the local government aid (LGA), local levy and production tax revenues received by the community. Next, the local effort tax capacity rate equals the fiscal need factor per capita (FNFPC) divided by 17. If the FNFPC is greater than 350, the local effort tax capacity rate (LETCR) is 350 divided by 17 plus the excess over 350 divided by 15. The minimum allowable LETCR is 8.16. The final step in this formula is to compute the *distribution index* (DI). The distribution index for a community equals its FNF minus LETCR times the adjusted net tax capacity divided by 100.

A distribution index is determined for all eligible communities. A percentage is determined by comparing the distribution index of a particular community to the total of distribution indexes for all eligible communities. This percentage is then multiplied by the amount of available municipal aid to determine an amount for each community. Prior to this calculation, the occupation tax grandfather amounts and special aid for the city of Kinney and township of White are subtracted from the total available to the municipal aid fund.

$$\text{If FNFPC} \leq 350, \text{LETCR} = \frac{\text{FNFPC}}{17}$$

$$\text{If } \frac{\text{FNFPC}}{17} > 350, \text{LETCR*} = \frac{350}{17} + \frac{(\text{FNFPC}-350)}{15}$$

$$\text{DI} = \text{*(FNF minus LETCR)} \times \frac{\text{Adjusted Net Tax capacity}}{100}$$

*** Minimum allowable LETCR = 8.16**

The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under Subd. 6 (see page 9). The state laws governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. Distribution detail is *Figure 10*, page 16.

(b) and (c) - Additional money is allocated to cities and townships if more than 75 percent of the city's assessed valuation consisted of iron ore as of Jan. 2, 1980, or if more than 75 percent of the township's assessed valuation consisted of iron ore on Jan. 2, 1982. The distribution is calculated using certified levies, net tax capacities and population. Currently, only White Township and the city of Kinney qualify.

M.S. 126C.48, Subd. 8 - Special Municipal Aid

The special municipal aid enacted by the 2001 legislation and distributed in 2002 was repealed. However, legislation passed in 2002 authorizes some cities and townships to receive aid from money allocated to their school districts for levy reduction to the extent that the levy reductions exceed the schools levy limitations.

Subd. 4 - School Districts

(a) Seventeen and fifteen hundredths cents (17.15) per taxable ton was distributed in 2005 under (b) and (c) plus amount in paragraph (d).

(b) Taconite School Fund (3.43 cents)

A total of 3.43 cents per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating. In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district. The primary crusher, tailings basin and power plant owned by a taconite company are considered part of concentrating. When these are in different school districts from the plant, the hours-worked split is used. Distribution details in *Figure 11*, page 17.

(c) Regular School Fund (13.72 cents)

A total of 13.72 cents per taxable ton is split among the 15 school districts in the Taconite Relief Area. Each school district receives the amount it was entitled to receive in 1975 from the taconite occupation tax (under M.S. 298.32). This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. Distribution detail is in *Figure 11,* page 17.

The index is calculated as follows: The pupil units for the prior school year are multiplied by the ratio of the average net tax capacity per pupil unit of all taconite districts to the adjusted net tax capacity per pupil unit of the district. Each district receives the portion of the distribution that its index bears to the sum of the indexes for all taconite school districts.

(d) Taconite Referendum Fund (21.3 cents)

The Taconite Referendum Fund (TRF) receives an allocation of 21.3 cents per taxable ton. Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The pupil units used in the computation are the greater of the previous year or the 1983-84 school year units. On July 15, the TRF pays the difference between the local levy and $175 per pupil unit. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Protection Trust (one-third). *Note: A district receiving money from the TRF must reserve the lesser of $25 or the amount received per pupil unit (of the $175 authorized) for early childhood programs or outcome-based learning programs. The commissioner of the Minnesota Department of Education must approve the outcome-based programs.* Distribution detail is in *Figure 11*, page 17.

(e) Each school district is entitled to receive the amount it received in 1975 under 298.32 (Occupation Tax Grandfather).

Subd. 5 - Counties

(a) The allocation of 26.05 cents per taxable ton to taconite counties (subject to adjustment by M.S. 298.225) is to be distributed under Subd. 5(b) through (d). The amounts listed in (b) and (d) are the statutory amounts prior to any adjustment by M.S. 298.225. Distribution detail is in *Figure 13,* page 18.

(b) Taconite Counties with Mining or Concentrating

An amount of 20.525 cents per taxable ton is distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced (split in the same manner as taconite cities and towns), less any amount distributed in Subd. 5(c). Distribution detail is in *Figure 13,* page 18.

(c) Counties - Electric Power Plant

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one cent of the 13 cents per ton (for that company) is distributed to the county in which the power plant is located. *This one cent is not escalated but is subject to M.S. 298.225 adjustment with variable guarantee*. Cook County continues to receive aid based on the former LTV power plant due to the guarantee provided by M.S. 298.225. For the 2003 production year, this amounted to $76,719. The only company whose distribution is affected is the former LTV Steel, due to its power plant location at Taconite Harbor in Cook County. Its one cent per ton distribution for the 1983 base year was figured on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$97,936 (1983 base) x 78.33577% = $76,719

There is also a transfer of $17,647 from property tax relief to the county fund covered in Subd. 6 (b). Cook County receives a total of $94,366 due to the LTV power plant ($76,719 + $17,647 = $94,366). The $17,647 amount is calculated: $22,528 (1983 base) x 78.33577% = $17,647.

(d) Taconite County Road and Bridge

Each county receives a portion of the aid that is deposited in the County Road and Bridge Fund in the same manner as taconite cities and towns. The basic allocation is 5.525 cents per taxable ton subject to adjustment as in M.S. 298.225. Distribution detail is in *Figure 13,* page 18.

Subd. 6 - Taconite Property Tax Relief

(a) Taconite Property Tax Relief

The amount sent to this fund was set by the 2001 legislature at 33.9 cents per taxable ton for the 2002 production year. For the production year 2002 and subsequent years, the gross domestic product implicit price deflator will index it. The indexed amount was 35.87 cents per ton for the 2003 production year. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

The *Taconite Homestead Credit* reduces the tax paid by owners of certain properties located on the Mesabi and Vermillion ranges located within the taconite relief area. The properties receiving this credit are owner-occupied homes and owner-occupied farms. The tax on all the land comprising the farm is used in determining the amount of credit for a farm. Prior to 1983, the credit on farms was limited to 240 acres.

If an owner-occupied home or farm is located in a city or town that contained at least 40 percent of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the tax up to a maximum credit of $315.10 for taxes payable in 2004.

If the property is not located in such a city or town, but is located in a school district containing such a city or town, the taconite credit is 57 percent of the tax up to a maximum credit of $289.80.

The total amount of taconite property tax relief paid in each county and school district is listed in *Figure 7*, page 13. An example of the calculation is shown in *Figure 8*, page 14.

State laws governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136 and M.S. 298.28, Subd. 6. This is guaranteed by the Northeast Minnesota Economic Protection Fund as stated in M.S. 298.293.

b) Electric Power Plant Aid from Property Tax Relief

For any electric power plant located in another county, as described in 5(c), 0.1875, cent per taxable ton (cpt) from the Taconite Property Tax Relief account is paid to the **county**. The distribution is subject to the M.S. 298.225 variable guarantee. For the 2003 production year, $17,647 was distributed, with the entire amount coming from the M.S. 298.225 guarantee (calculation details on page 9 under (c) counties).

(c) Electric Power Plant Aid from Property Tax Relief

This subdivision allocates 0.4541 cent per LTV's taxable tonnage to the Cook County **s**chool district due to LTV's power plant in Cook County. The distribution is subject to the M.S. 298.225 guarantee at 31.2 percent or the variable rate, whichever is less. For the 2003 production year, $21,087 was distributed. This is calculated by multiplying the 1983 base of $67,586 x .312 = $21,087.

Subd. 7 — Iron Range Resources & Rehabilitation Board

An amount of 6.5 cents per taxable ton escalated by the Gross National Product Implicit Price Deflator is allocated to the Iron Range Resources and Rehabilitation Board (subject to M.S. 298.225 guarantee). The funds are used by the IRRRB for general operating expenses and community development grants.

Subd. 8 — Range Association of Municipalities & Schools

This 0.2 cent per taxable ton (subject to M.S. 298.225 guarantee) is paid to the Range Association of Municipalities and Schools (RAMS) to provide an area-wide approach to problems that demand coordinated and cooperative actions. All cities, towns and schools in the taconite and iron ore mining area are included. This amount is subtracted from the Taconite Municipal Aid distribution in Subd. 3.

Subd. 9 — Douglas J. Johnson Economic Protection Trust Fund

In addition to the amount provided in the remainder after all other distributions are completed, 3.35 cents per taxable ton is allocated to the Douglas J. Johnson Economic Protection Trust Fund for production year 1998 and thereafter.

(a) Taconite Economic Development Fund

This subdivision is explained in detail on pages 23 and 25.

Subd. 10 — Indexing

Beginning with distribution in 2000 (1999 production year), the amounts determined under Subd. 6, paragraph (a), Subd. 7 and Subd. 9 are increased in the same proportion as the increase in the implicit price deflator as provided in Section 298.24, Subd. 1.

Subd. 11— Remainder

(a) After distributing all other aid, including school bond credits and payments, taconite railroad, and IRRRB payments, remainder is distributed of the two-thirds to the Taconite Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. The remainder includes interest earned on money on deposit by the counties. The amounts in (b) and (c) are taken from the initial amount prior to making the 1/3 - 2/3 distribution to the two funds.

(b) Taconite Railroad

Until 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed in 2005 is $2,482,454. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225 and so remain constant from year to year. Beginning with the 2002 production year, the taconite railroad distribution to schools is reduced to 62 percent of the 1977 amount.

(c) Occupation Tax Grandfather Amount to IRRRB

In 1978 and each year thereafter, the amount distributed to the IRRRB is the same as it received in 1977 from the distribution of the taconite and iron ore occupation taxes: $1,252,520.

Additional Payments

Although the following payments are not included in M.S. 298.28 or its subdivisions, they are subtracted prior to dividing the remainder described in Subd. 11.

These payments are listed in detail on page 17 and consist of school bond payments to school districts within the taconite tax relief area and taconite assistance area. Most are funded 80 percent taconite and 20 percent local efforts.

Aid Guarantee (Minnesota Statute 298.225)

The recipients of the taconite production tax, provided in M.S. 298.28, Subds. 2 to 5, Subd. 6, paragraphs (b) and (c) and Subds. 7 and 8, are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less, the amount distributed from the fund is reduced proportionately by two percent per each 1,000,000 tons by which the taxable tons are less than 42,000,000 tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying two percent times 2.2 million tons. This aid guarantee is funded equally from the initial current year distributions to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. If the initial distributions are insufficient to fund the difference, the commissioner of the IRR makes the payments of any remaining difference from the capital of the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust Fund in equal proportions. The commissioner of the Minnesota Department of Revenue determines this. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—City and Town Fund
2. 12.3 cents—Taconite Municipal Aid
3. 6.5 cents—escalated to IRRRB
4. 0.2 cent—RAMS
5. 0.1875 cent—power plant transfer from Taconite Property Tax Relief Account to Cook County
6. 4.0 cents - Mining Effects Fund (uses 1999 production year as base year)

The following funds are guaranteed at 75 percent or the variable guarantee, whichever is less:

1. 20.525 cents—Taconite County Fund
2. 5.525 cents—Taconite County Road and Bridge Fund

The following funds are guaranteed at 31.2 percent or the variable guarantee, whichever is less:

1. 13.72 cents—Regular School Fund
2. 3.43 cents—Taconite School Fund
3. Taconite Referendum Fund
4. 0.5625 cent—power plant transfer from Taconite Property Tax Relief Account to School District 166, Cook County

The Taconite Property Tax Relief Account is not covered by M.S. 298.225, but is separately guaranteed by the Economic Protection Fund, as stated in M.S. 298.293.

Taconite Production Tax Distribution Calculation

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing and Aitkin) and the IRR. Each county auditor is responsible for making the taconite aid payments to the various jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account and issues taconite property tax relief checks to the other counties. The State of Minnesota also made a payment of $0.22 cents per taxable ton (payable 2005). This money was added to the amount available for distribution.

The Minnesota Department of Revenue makes all computations regarding the amount paid by the companies, state and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds are remitted by the counties to the IRR.

The proceeds of the 2004 taconite production tax (payable 2005) are distributed by state law as follows (*all figures are cents per taxable ton*):

M.S. 298.28 – Payment recipients			Cents per ton
Subd. 2a	Taconite cities and towns		4.5
Subd. 2b	Taconite cities and towns (mining effects)		4.0
Subd. 3	Taconite municipal aid account		12.3
Subd. 4	School districts		
	(b)	Taconite schools (mining and/or concentrating in the district)	3.43
	(c)	School districts within the taconite relief area (distributed by formula)	13.72
		Basic school district total	17.15
	(d)	Taconite Referendum Fund	(formula amount - see page 8)
Subd. 5	Counties		
	(b and c)	Taconite counties (includes electric power plant)	20.525
	(d)	Taconite counties road/bridge	5.525
		Counties total:	26.05
Subd. 6	Taconite property tax relief (includes .75 cents for Cook County and Cook County schools)		33.9*
Subd. 7	IRRRB		6.5*
Subd. 8	Range Association of Municipalities and Schools		0.2
Subd. 9	Douglas J. Johnson Economic Protection Trust Fund		3.35*
Subd. 9a	Taconite Economic Development Fund		30.1
Subd. 9b	Taconite Environmental Fund for use in Producer Grant & Loan Fund		5.0**
Subd. 10	Indexing provisions		--
Subd. 11	Distribution of remainder		--

* These funds are escalated using the Gross Domestic Product Implicit Price Deflator. After escalation, the cents per ton for Taconite Property Tax Relief was 36.45 cents, IRRRB was 7.28 cents, and the Northeastern Minnesota Economic Protection Fund was 3.69 cents.

** Plus amount of revenue due to tax increase generated in pay 2005.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 10, page 16.

Figure 5

Douglas J. Johnson Economic Protection Trust Fund and Environmental Protection Fund

Period ending	Fund balance	Taconite Environmental Fund balance
June 30, 1989	$31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,538,918
June 30, 1993	54,084,189	1,459,629
June 30, 1994	57,633,818	1,411,886
June 30, 1995	61,596,404	4,034,811
June 30, 1996	66,451,967	3,638,011
June 30, 1997	61,901,073	4,440,733
June 30, 1998	61,863,771	4,709,999
June 30, 1999	71,863,771	5,003,671
June 30, 2000	78,602,904	4,632,476
June 30, 2001	81,880,819	3,680,925
June 30, 2002	79,621,545	1,079,868
June 30, 2003	84,572,870	7,868,073
June 30, 2004	86,298,384	6,709,194
June 30, 2005	83,433,221	15,691,497

Douglas J. Johnson Fund Major Withdrawals		
Sept. 27, 1982	$ 2.50 million	IRR Jobs Program
Feb. 3, 1983	5.00 million	IRR Jobs Program
May 24, 1983	10.00 million	IRR Economic Development
Feb. 25, 1984	2.08 million	Aid guarantees to cities/schools (M.S. 298.225)*
February and May, 1987	.46 million	M.S. 298.225
Sept, 26, 1989	1.90 million	Property tax relief guarantee
July 1, 1996	10.00 million	Producer grant program**
July 1, 2001	.1 million	Mining Effects Extension***
Various 2002 & Jan. 2003	2.52 million	M.S. 298.225
Sept. 2004	5.00 million	Loan to Mesabi Nugget
Dec. 2004	3.00 million	Loan to MN Steel Industries

* This aid guarantee formula was revised by the 1984 Legislature so that further withdrawals should not be necessary except during serious iron ore industry depression.

** 1996 M.S. 298.2961

*** Section 20 of 2001 legislation amended M.S. 298.225 (aid guarantees) to extend payments for certain cities and townships.

The Taconite Area Environmental Protection Fund (TEPF), M.S. 298.223 and the Douglas J. Johnson Economic Protection Trust Fund (DJJ), formerly known as Northeast Minnesota Economic Protection Trust Fund, M.S. 298.291 through 298.294, were established by the 1977 Legislature. These two funds receive the remainder of the production tax revenues after all distributions are made according to M.S. 298.28. The remainder is split with one-third going to the DJJ and two-thirds to the TEPF.

The TEPF was *created for the purpose of reclaiming, restoring and enhancing those areas of Minnesota that are adversely affected by environmentally damaging operations involved in mining and producing taconite and iron ore concentrate*. The scope of activities includes local economic development projects. The Iron Range Resources commissioner administers the fund. The Iron Range Resources Board and the governor must approve projects.

The DJJ is somewhat different in that only interest and dividends earned by the fund may be spent before January 1, 2028. Expenditures from the principal may be made with approval from the Iron Range Resources Board for economic development projects.

Taconite Property Tax Relief

The taconite homestead credits described on page 9 are administered by the county auditors. The amounts payable in 2004 are listed in *Figure 7* below. Distribution is determined by the formula described on page 15. The amounts do not equal the total production tax allocated for property tax relief shown in the tables as collections or payments. The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Douglas J. Johnson Economic Protection Fund. The last time this occurred was in 1989.

Figure 6

Taconite Property Tax Relief Fund Balance

Year payable	Payments into account*	Interest & other**	Payments out (by formula)	Balance December 31
1989	$5,904,200	$214,400	$8,081,000	$9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,818	505,139	7,914,709	5,805,325
1992	10,891,942	411,356	8,308,617	8,800,006
1993	10,847,642	437,219	8,980,640	11,104,227
1994	11,783,383	712,838	11,136,577	12,463,871
1995	12,143,854	1,087,081	11,758,988	13,935,818
1996	13,055,526	1,080,173	11,600,147	16,471,370
1997	12,924,447	1,039,106	11,809,166	18,832,791
1998	13,555,273	1,416,146	11,269,163	22,535,047
1999	16,237,808	1,379,053	14,867,173	25,284,735
2000	16,078,849	2,040,283	15,041,042	28,362,825
2001	13,850,869	2,488,790	15,339,725	29,362,759
2002	10,293,022	5,552,323 ***	23,950,183****	19,209,484
2003	10,835,555	415,669	11,300,470	19,160,238
2004	16,119,076*****	412,123	11,257,422	24,434,015
2005 Est.	13,518,201	450,000	11,300,000	27,100,000

* Listed under year payable; therefore, 2005 payments result from 2004 production.
** St. Louis County began as the fiscal agent in 1986. *Note: It includes amounts of incorrect homestead claims repaid and other adjustments.*
*** Includes reimbursement from state for overpayment in Aitkin, Crosby-Ironton and Grand Rapids School Districts.
**** $10,857,566 of Special Municipal aid was also paid out of homestead credit funds as a one time payment.
***** Includes $4,940,000 from National bankruptcy settlement.

Figure 7

Taconite Property Tax Relief Fund Distribution

Total listed by school district area

School district	Mobile home	Real property
166 - Cook County	1,018	457,726
316 - Coleraine	5,036	825,946
319 - Nashwauk-Keewatin	1,532	364,997
381 - Lake Superior	1,928	1,373,233
695 - Chisholm	216	641,468
696 - Ely	1,275	578,707
701 - Hibbing	10,536	1,826,551
706 - Virginia	1,025	1,034,440
712 - Mt. Iron-Buhl	3,872	456,395
2142 - St. Louis County	3,576	1,837,828
2154 - Eveleth-Gilbert	2,022	936,994
2711 - Mesabi East	1,434	889,667
Total (Payable 2004)	**$33,470**	**$11,223,952**

Total listed by county area

County	Mobile home	Real property	Grand total
(69) St. Louis	$24,441	$8,449,785	**$8,474,226**
(31) Itasca	6,568	1,190,943	**1,197,511**
(38) Lake	1,439	1,121,669	**1,123,108**
(16) Cook	1,018	457,726	**458,744**
(36) Koochiching	4	3,829	**3,833**
Total: (Payable 2004)	**$33,470**	**$11,223,952**	**$11,257,422**

Mobile homes are taxed differently from other real estate in that they are assessed and taxed in the same year.

The supplemental property tax relief paid from the State General Fund revenue to Deer River (Itasca Co.), Floodwood (St. Louis Co.), Aitkin, Crosby-Ironton and Grand Rapids is not included in any of the production tax tables.

The aid amounts in Figures 10, 11 and 13 do not include taconite property tax relief.

Figure 8

Taconite Residential Homestead Credit Examples

Taxes payable 2005

Gross tax computation	66% Example 1	66% Example 2
1. Total Market Value	$30,000.00	$70,000.00
2. Net Tax Capacity	$300.00	$700.00
3. Local Tax Rate	110.000%	110.000%
4. Net Tax Capacity Tax (2 x 3)	$330.00	$770.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$28.50	$66.50
7. Total Gross Tax (4 + 6)	$358.50	$836.50
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1x0.40%: max. $304)	$120.00	$280.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$0
c) Final Credit (8a-8b)	$120.00	$280.00
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$238.50	$556.50
10. Taconite Credit (9 x 66%, $315.10 maximum) *	$157.41	$315.10
11. Net Tax (9 - 10)	$81.09	$241.40

Gross tax computation	57% Example 1	57% Example 2
1. Total Market Value	$30,000.00	$70,000.00
2. Net Tax Capacity	$300.00	$700.00
3. Local Tax Rate	110.000%	110.000%
4. Net Tax Capacity Tax (2 x 3)	$330.00	$770.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$28.50	$66.50
7. Total Gross Tax (4 + 6)	$358.50	$836.50
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1 x 0.40%: max. $304)	$120.00	$280.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$0
c) Final Credit (8a-8b)	$120.00	$280.00
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$238.50	$556.50
10. Taconite Credit (9 x 57%, $289.80 maximum) *	$135.95	$289.80
11. Net Tax (9-10)	$102.55	$266.70

* Taconite credit cannot be less than $10.

Figure 9

Taconite Production Tax Distribution*

Production year	1999	2000	2001	2002	2003	2004
City and township	$2,032,122	$1,925,473	$1,881,213	1,827,187	1,858,302	2,045,317
Taconite municipal aid	6,885,798	6,351,449	$6,047,128	5,773,656	5,843,362	6,453,011
Mining effects	1,738,702	1,468,445	1,617,671	1,580,353	1,607,243	1,766,911
School district — regular	2,058,150	1,970,471	1,903,309	0	1,399,421	1,524,414
School district fund	7,987,559	7,684,905	7,416,561	0	5,301,098	5,797,758
Taconite Referendum Fund	4,830,625	4,698,761	4,533,342	4,844,944	4,688,992	4,469,529
County	9,823,470	9,894,721	9,626,663	9,625,883	9,690,602	10,084,303
County road and bridge	2,610,639	2,613,261	2,541,344	2,541,361	2,558,701	2,663,977
Taconite Property Tax Relief	16,078,849	13,850,869	10,293,022	10,835,555	11,227,023	13,518,201
IRRRB ($.03 Indexed)	3,043,644	2,840,770	2,760,975	2,655,112	2,724,158	3,033,394
Range Association of Municipalities and Schools	109,342	102,158	97,447	93,379	94,695	104,390
Taconite railroad (fixed)	2,821,677	2,821,677	2,821,677	1,375,519	2,482,454	2,482,454
IRRRB (fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
School bond payments	4,850,823	4,424,030	4,568,703	4,734,031	4,755,935	4,634,733
Taconite Environmental Protection Fund	12,171,632	7,910,648	6,842,730	6,171,626	7,009,851	9,929,923
Producer Grant & Loan Fund	–	–	–	–	–	3,115,619
Douglas J. Johnson Economic Protection Trust Fund	5,487,705	2,134,870	345,983	7,990,160	836,345	3,140,064
Taconite Economic Development Fund	7,107,309	5,992,728	9,223,714	9,425,759	9,771,605	11,684,231
Producer grants	2,173,376	1,835,557	1,480,932	1,531,259	–	–
Transfer from schools to cities**	–	–	–	–	314,121	177,026
Balkan Township	–	–	–	100,000	–	–
Total	**$93,063,942**	**$79,773,313**	**$75,254,934**	**$72,358,304**	**$73,416,428**	**$87,422,758**

* The production tax is collected and distributed in the year following production. For example, the 2004 production tax was collected and distributed during 2005.
** This is excess school levy reduction money that will be used to reduce levies of cities and townships within the school district.

Figure 10

Taconite Production Tax Distribution to Cities and Townships – 2005

(Based on 2004 production year tax revenues—not including Taconite Property Tax Relief dollars)

Name	4.5 cent mining & conc.	4.0 cent mining effects	Taconite railroad*	Taconite municipal aid	Money from schools levy reduction 2006	Total
COOK COUNTY						
Schroeder Township	$9,612	$–	$47,700	$0	$–	**$57,312**
CROW WING COUNTY						
Crosby	–	–	–	191,914	–	**191,914**
Ironton	–	–	–	44,340	–	**44,340**
Riverton	–	–	–	5,158	–	**5,158**
Trommald	–	–	–	3,592	–	**3,592**
Irondale Township	–	–	–	27,282	–	**27,282**
Rabbitt Lake Township	–	–	–	4,349	–	**4,349**
Wolford	–	–	–	3,085	–	**3,085**
ITASCA COUNTY						
Bovey	–	–	–	68,492	–	**68,492**
Calumet	–	–	–	36,587	–	**36,587**
Cohasset	–	–	–	0	–	**0**
Coleraine	–	–	–	93,484	–	**93,484**
Keewatin	51,336	70,574	–	129,772	–	**251,682**
Marble	–	–	–	59,366	–	**59,366**
Nashwauk	13,445	57,532	–	106,717	–	**177,694**
Taconite	–	–	–	29,706	–	**29,706**
Grand Rapids Township	–	–	–	29,923	–	**29,923**
Greenway Township	17,123	–	–	25,908	–	**43,031**
Iron Range Township	–	–	–	7,823	–	**7,823**
Lone Pine Township	5,608	31,387	–	2,543	–	**39,538**
Nashwauk Township	60,984	42,966	–	29,636	–	**133,586**
LAKE COUNTY						
Silver Bay	112,550	–	152,706	212,862	–	**478,118**
Beaver Bay Township	4,569	–	12,565	0	–	**17,134**
Crystal Bay Township	–	–	6,951	–	–	**6,951**
Silver Creek Township	–	–	20,612	–	–	**20,612**
Stony River Township	–	–	19,943	–	–	**19,943**
ST. LOUIS COUNTY						
Aurora	12,595	77,609	–	175,487	–	**265,691**
Babbitt	86,514	175,866	166,767	189,572	–	**618,719**
Biwabik	–	26,288	–	106,010	–	**132,298**
Buhl	–	39,066	–	101,578	16,926	**157,570**
Chisholm	–	66,889	–	481,308	–	**548,197**
Ely	–	–	–	300,277	–	**300,277**
Eveleth	54,763	95,345	–	367,922	–	**518,030**
Gilbert	48,077	52,547	–	214,578	–	**315,202**
Hibbing	486,019	232,608	–	1,425,014	–	**2,143,641**
Hoyt Lakes	232,954	86,103	152,153	271,579	–	**742,789**
Kinney	10,421	7,153	–	65,420**	3,372	**86,366**
Leonidas	4,343	1,451	–	8,813	–	**14,607**
McKinley	–	2,353	–	10,178	–	**12,531**
Mountain Iron	593,515	115,549	–	355,561	109,131	**1,173,756**
Virginia	30,246	352,974	–	874,440	4,297	**1,261,957**
Balkan Township	–	10,910	–	26,238	–	**37,148**
Bassett Township	–	5,141	11,745	–	–	**16,886**
Biwabik Township	0	25,649	–	24,848	–	**50,497**
Breitung Township	–	–	–	0	–	**0**
Clinton Township	–	25,205	–	–	–	**25,205**
Eagle's Nest Township	–	–	–	0	–	**0**
Fayal Township	2,514	47,303	–	32,743	–	**82,560**
Great Scott Township	17,120	15,800	–	17,545	22,850	**73,315**
McDavitt Township	97,839	–	–	19,383	–	**117,222**
Waasa Township	–	12,567	–	–	–	**12,567**
White Township	21,055	69,246	–	261,832**	–	**352,133**
Wuori Township	72,115	20,830	–	10,146	–	**103,091**
Unorganized-60 19 Balkan (712)	–	–	–	–	20,450	**20,450**
Total	**$2,045,317**	**$1,766,911**	**$591,142**	**$6,453,011**	**$177,026**	**$11,033,407**

* Fixed amount based on 1977 Taconite railroad gross earnings tax distributions.

** Includes amount from M.S. 298.28, Subd. 1, Clause (2) (b).

— Indicates not eligible.

0 Indicates eligible, but no payment at current valuation and production.

Figure 11

Taconite Production Tax Distributions to School Districts - 2005

School districts	$.0343 Taconite School Fund	$.1372 Regular School Fund	Taconite railroad	Taconite Referendum	Total
001 Aitkin	–	$180,980	–	$123,725	$304,705
166 Cook County	$21,087	57,571	$264,977	0	343,635
182 Crosby-Ironton	–	223,330	–	125,728	349,058
316 Greenway	32,431	578,724	–	307,058	918,213
318 Grand Rapids	–	680,176	–	544,856	1,225,032
319 Nashwauk-Keewatin	126,341	271,054	–	150,117	547,512
381 Lake Superior	89,271	388,539	342,720	347,134	1,167,664
695 Chisholm	–	359,548	–	219,171	578,719
696 Ely	–	86,952	–	133,732	220,684
701 Hibbing	328,789	882,264	–	642,745	1,853,798
706 Virginia	82,095	543,313	–	352,884	978,292
712 Mtn. Iron-Buhl	464,039	143,275*	–	222,546	829,860
2142 St. Louis County	123,886	466,398	284,841	559,544	1,434,669
2154 Eveleth-Gilbert	73,138	542,301	–	350,350	965,789
2711 Mesabi East	183,337	393,333	214,397	389,939	1,181,006
Totals	**$1,524,414**	**$5,797,758**	**$1,106,935**	**$4,469,529**	**$12,898,636**

* After $177,026 was transferred to cities/townships for levy reduction.

Figure 12

Taconite Production Tax School Bond Payments

School districts	Year authorized[1]	Final payment year[2]	Payment[5]	Outstanding balance[3]
166 Cook County[4]	1996	2016	$530,852	$4,634,000
316 Greenway	1990	2009	68,992	250,581
316 Greenway	1996	2008	45,604	236,000
316 Greenway	2000	2019	155,320	1,644,000
318 Grand Rapids	1996	2010	475,754	2,412,000
381 Lake Superior	2000	2022	391,442	4,643,066
695 Chisholm	1990	2005	330,144	256,000
695 Chisholm	2000	2020	206,801	3,942,292
696 Ely	1996	2015	68,070	568,000
701 Hibbing	1996	2011	211,540	1,232,000
706 Virginia	1996	2016	841,988	6,432,969
712 Mt. Iron-Buhl	1998	2017	325,172	3,128,000
2142 St. Louis County	1996	2005	317,980	304,000
2154 Eveleth-Gilbert	1990	2009	400,000	397,720
2154 Eveleth-Gilbert	1996	2017	206,012	2,584,000
2711 Mesabi East	1996	2011	59,062	356,000
Totals:			$4,634,733	$33,020,562

1 Legislative year in which taconite funding was enacted.
2 Production year from which final bond payment will be deducted.
3 Estimated portion of outstanding bond balance to be paid by taconite funds (not including interest).
4 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: Cook County – 1996, 70 percent.
5 Payments for 2004 production year.

Figure 13

Taconite Production Tax Distribution to Counties - 2005

Production year 2004

(Does not include dollars from taconite property tax relief)

County	Regular county 13 cents	Road and bridge 3.5 cents	Taconite railroad	Total
Cook	$ 108,905	–	$187,190	$ 296,095
Itasca	778,858	$ 205,608	–	984,466
Lake	745,015	192,262	243,034	1,180,311
St. Louis	8,451,525	2,266,107	354,153	11,071,785
Total	**$10,084,303**	**$2,663,977**	**$784,377**	**$13,532,657**

Figure 14

Taconite Production and Tax Revenue by Company

Production year 2004

Company	Production tons	Taxable tonnage*	Production tax rate	Tax assessed
Hibbing Taconite	8,101,948	7,760,163	$2.137	$ 16,583,468
Ispat Inland	2,693,971	2,670,924	2.137	5,707,765
Keewatin Taconite	5,343,915	5,061,481	2.137	10,816,385
Minntac	14,327,728	13,784,308	2.137	29,457,066
Northshore	4,912,594	4,525,178	2.137	9,670,305
United Taconite	4,030,871	3,288,637	2.137	7,027,817
Total	**39,411,027**	**37,090,691**	**$2.137**	**$79,262,806**

* The taxable tonnage is the average production of the current year and previous two years.

Figure 15

2004 Production by Product Type

	Pellets			Chips and Fines			
Company	**Acid**	**Flux**	**Partial flux***	**Acid**	**Partial Flux***	**Fine conc.**	
Hibbing	–	–	8,101,948	–	–	–	8,101,948
Ispat Inland	–	2,651,251	–	–	42,720	–	2,693,971
Northshore	–	–	4,848,763	–	–	63,831	4,912,594
USS - Keetac	–	–	5,247,103	–	81,676	15,136	5,343,915
USS - Minntac	2,598,955	11,621,729	–	–	107,044	–	14,327,728
United Taconite	–	–	3,904,651	126,220	–	–	4,030,871
Total:	2,598,955	14,272,980	22,102,465	126,220	281,440	78,967	39,411,027

Acid production:	2,789,006
Flux production:	36,622,021
Total	39,411,027

Total pellets:	38,974,400	
Total chips and fines:	436,627	
Grand total:	**39,411,027**	(dry with flux included)

*Partial flux pellets contain less than two percent flux.

Figure 16

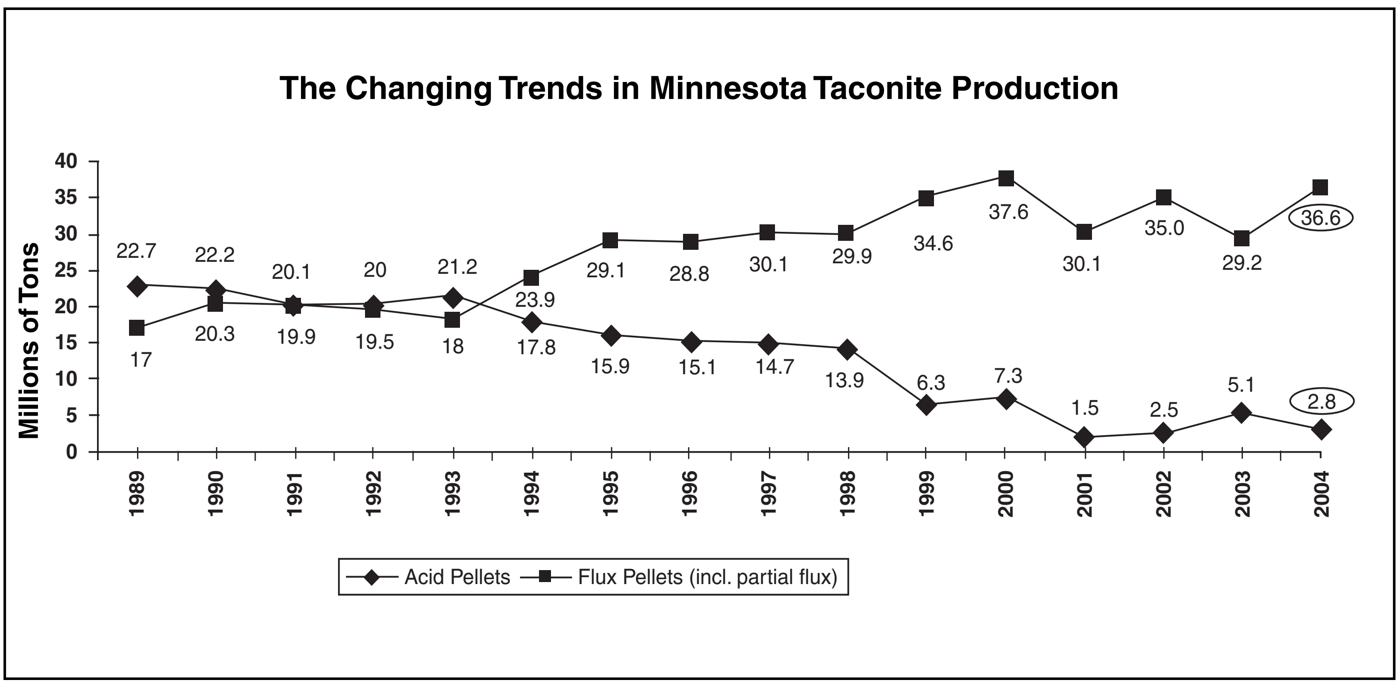


Figure 17

Production Tax Rate History and Index Summary

Production Year	Statutory	Fe (iron)	Inflation	Total	TEDF	Producer Grants
1941	5.0 cents	0.5 cents	None	5.5 cents	0	0
1969	11.5 cents	0.5 cents	0 (WPI*)	12.0 cents	0	0
1970	11.5 cents	0.5 cents	0 (WPI)	12.0 cents	0	0
1971	15.5 cents	0.5 cents	0.4 (WPI) cents	16.4 cents	0	0
1972	18.5 cents	0.5 cents	1.3 (WPI) cents	20.3 cents	0	0
1973	20.5 cents	1.0 cents	2.8 (WPI) cents	24.3 cents	0	0
1974	20.5 cents	1.0 cents	8.2 (WPI) cents	29.7 cents	0	0
1975	60.5 cents	1.0 cents	13.4 (WPI) cents	74.9 cents	0	0
1976	60.5 cents	1.0 cents	15.5 (WPI) cents	76.5 cents	0	0
1977	125.0 cents	4.5 cents	0 (SMPI**) cents	129.5 cents	0	0
1978	125.0 cents	6.0 cents	8.9 (SMPI) cents	139.9 cents	0	0
1979	125.0 cents	6.0 cents	28.8 (SMPI) cents	159.8 cents	0	0
1980	125.0 cents	6.0 cents	42.2 (SMPI) cents	173.3 cents	0	0
1981	125.0 cents	6.0 cents	60.6 (SMPI) cents	191.6 cents	0	0
1982	125.0 cents	6.0 cents	76.8 (SMPI) cents	207.8 cents	0	0
1983	125.0 cents	6.0 cents	73.7 (SMPI) cents	204.7 cents	0	0
1984	125.0 cents	6.0 cents	79.7 (SMPI) cents	210.7 cents	0	0
1985	125.0 cents	3.0 cents	76.8 (SMPI) cents	204.8 cents	0	0
1986	190.0 cents	0	Frozen (IPD)	190.0 cents	0	0
1987	190.0 cents	0	Frozen (IPD***)	190.0 cents	0	0
1988	190.0 cents	0	Frozen (IPD)	190.0 cents	0	0
1989	190.0 cents	0	7.5 (IPD) cents	197.5 cents	0	0
1990	190.0 cents	0	◆7.5 (IPD) cents	197.5 cents	0	0
1991	190.0 cents	0	15.4 (IPD) cents	205.4 cents	0	0
1992	190.0 cents	0	◆15.4 (IPD) cents	205.4 cents	10.4 cents	0
1993	190.0 cents	0	◆15.4 (IPD) cents	205.4 cents	15.4 cents	0
1994	190.0 cents	0	◆15.4 (IPD) cents	205.4 cents	15.4 cents	0
1995	190.0 cents	0	◆15.4 (IPD) cents	205.4 cents	15.4 cents	0
1996	190.0 cents	0	19.4 (IPD) cents	209.4 cents	20.4 cents	0
1997	190.0 cents	0	24.1 (IPD) cents	214.1 cents	15.4 cents	5.0 cents
1998	190.0 cents	0	24.1 (IPD) cents	214.1 cents	15.4 cents	5.0 cents
1999	190.0 cents	0	24.1 (IPD) cents	214.1 - cents	15.4 cents	5.0 cents
2000	190.0 cents	0	27.3 (IPD) cents	217.3 - cents	15.4 cents	5.0 cents
2001	210.3 cents	0	0 (IPD) cents	210.3 - cents	30.1 cents	5.0 cents
2002	210.3 cents	0	0 (IPD) cents	210.3 - cents	30.1 cents	5.0 cents
2003	210.3 cents	0	0 (IPD) cents	210.3 - cents	30.1 cents	0.0 cents
2004	210.3 cents	0	3.4 (IPD) cents	213.7 - cents	30.1 cents	0.0 cents
2005	210.3 cents	0	3.4 (IPD) cents	213.7 - cents	30.1 cents	0.0 cents

* Wholesale price index
** Steel mill products index
*** Gross national product implicit price deflator, gross domestic implicit price deflator beginning in 2000.
◆ In years following 1989 and 1991 when the inflation index was unchanged, it was frozen by legislative action.

Figure 18

Taconite Produced and Production Tax Collected

Year	Production tons	Production tax collected (000s)	Collected rate per production ton	Taxable tons*	Tax rate per taxable ton
1958	8,574	500	0.058		
1959	8,414	528	0.063		
1960	13,390	735	0.055		
1961	13,187	766	0.058		
1962	14,526	842	0.058		
1963	16,701	972	0.058		
1964	18,505	1,075	0.058		
1965	19,004	1,104	0.058		
1966	21,677	1,257	0.058		
1967	24,311	1,427	0.059		
1968	30,269	1,782	0.059		
1969	33,410	3,778	0.113		
1970	35,348	4,253	0.120		
1971	33,778	5,539	0.164		
1972	34,544	7,002	0.203		
1973	41,829	10,159	0.243		
1974	41,053	11,952	0.291		
1975	40,809	30,347	0.744		
1976	40,575	30,857	0.760		
1977	26,372	48,891	1.854	37,759	$1.295
1978	49,545	69,394	1.401	49,614	1.399*
1979	55,333	88,485	1.599	55,373	1.598*
1980	43,060	87,179	2.025	50,296	1.733*
1981	49,369	99,018	2.006	51,799	1.916*
1982	23,445	80,305	3.425	38,624	2.078*
1983	25,173	67,341	2.675	33,302	2.047*
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994	41,677	81,500	1.956	40,126	2.054
1995	45,001	85,705	1.904	42,176	2.054
1996	43,874	90,513	2.063	43,517	2.094
1997	44,816	94,705	2.113	44,563	2.141
1998	44,324	94,268	2.126	44,338	2.141
1999	41,293	93,064	2.254	43,468	2.141
2000	37,785	79,773	2.111	36,711	2.173
2001	31,628	62,288	1.969	34,638	2.103
2002	37,512	64,405	1.717	35,575	2.103
2003	34,349	65,546	1.908	31,302	2.103
2004	39,411	79,263	2.011	37,091	2.137

* The 1977 law was the first to apply the production tax rate against *taxable tons*, the greater of the current year's production, or the three-year average of production tons. Due to a negotiated settlement of court cases, the taxable tonnage for 1984 was the current year only. The taxable tonnage for 1985 was the average tonnage for 1984 and 1985. A three-year average is used for 1986 and beyond.

Direct Reduced Iron (DRI)

The recent worldwide interest in direct reduced iron (DRI) has caused some taconite producers to explore the possibility of building a DRI plant in Minnesota. Recognizing this trend, the Legislature has taken action to encourage DRI production in Minnesota.

Reduced Production Tax Rate for DRI

The first five years of a DRI plant's commercial production are subject to reduced tax rates. Commercial production is defined as more than 50,000 tons.

Years of operation	% of regular rate	Years of operation	% of regular rate
1	0%	4	50%
2	0%	5	75%
3	25%	6	100%

The taconite production tax rate for DRI is the regular rate plus an additional 3 cents per gross ton for each 1 percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. Thus, at a base production tax rate projected for 2004 at $2.137 per ton, the tax rate for 90 percent iron DRI would be $2.677. The rate for 95 percent DRI would be $2.827.

A number of economic development packages to build a DRI plant or a non-ferrous plant are offered by the State of Minnesota and Iron Range Resources (IRR) and the U.S. Government. These are detailed on the IRR page.

General Information

Because it is subject to the taconite production tax, a DRI production plant and facilities is exempt from regular ad valorem property taxes. The taxable tonnage is based on a three- year production average. Pig iron is considered DRI for the purpose of production tax and incentives.

A steel plant or a non-ferrous (base or precious metal) mine or plant would be subject to ad valorem (property) taxes as would any other business. If a steel plant were in conjunction with DRI plant, the DRI portion would be subject to the taconite production tax, thus exempt from ad valorem (property) taxes.

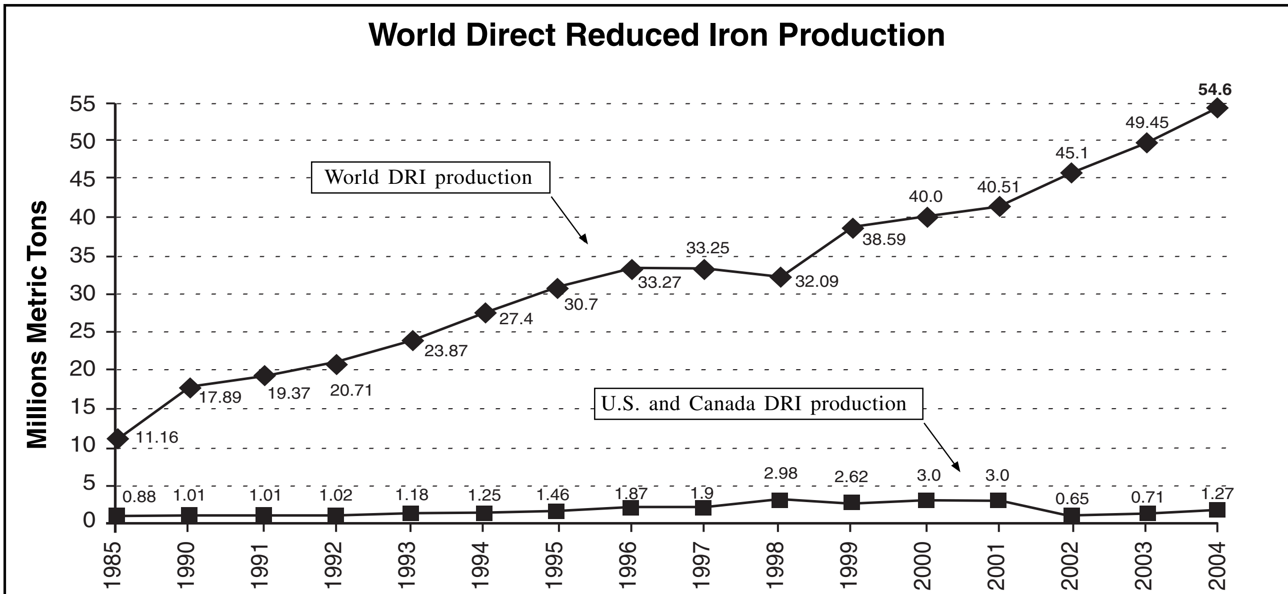
The 2004 legislature authorized a streamlined environmental permitting procedure to allow a DRI plant to be built at the closed LTV site near Hoyt Lakes, and the IRR is engaged in negotiations concerning an economic incentive package.

Electric Power Plant Personal Property Exemption (M.S. 272.027, Subd. 3)

Tools, implements and machinery of an electric generating facility are exempt if all the following requirements are met:

1. The electric generating facility has a capacity of at least 450 megawatts;
2. The electric generating facility is adjacent to a taconite mine direct reduction steel mill; and
3. The electric generating facility supplies more than 60 percent of its electricity in the prior year to the adjacent direct reduction plant and steel mill.

Figure 19



Prior to 2001, numbers have been provided by the U.S. Geological Survey, Mineral Information
From 2001 to current, information provided by www.midrex.com

Iron Range Resources and Rehabilitation Agency

Iron Range Resources is a unique Minnesota state agency charged with the economic development and diversification of a region in northeastern Minnesota defined by Minnesota Statute §273.134 as the Taconite Assistance Area (TAA), including all or parts of Cook, Lake, St. Louis, Itasca, Aitkin and Crow Wing Counties. Iron Range Resources was created in 1941 as part of a legislative compromise to limit ad valorem taxes on mining. It was funded from occupation taxes for its first 30 years. It is now funded by taconite production taxes, which are paid by mining companies in lieu of local property taxes. The agency receives no direct operational funding from the State of Minnesota General Fund. The production tax essentially replaces the local tax obligations that the taconite producers otherwise would have to local governments. That, coupled with the TAA's dependence on the taconite industry and the cyclical nature of the steel industry it serves, caused the State Legislature to create Iron Range Resources to serve northeastern Minnesota.

Iron Range Resources is headquartered in Eveleth. A commissioner, who is appointed by the governor, directs the agency. Effective July 1, 1999, the commissioner is advised by a board comprised of five state senators, appointed by the Senate majority leader, and five state representatives, appointed by the House speaker, a majority of whom must come from TAA districts. Three citizens from the TAA also are appointed, one each by the Senate majority leader, House speaker and governor.

While economic development of the TAA through loans and grants to businesses and local governments is Iron Range Resources' main focus, the agency also owns and operates two tourism facilities, Giants Ridge Golf and Ski Resort in the city of Biwabik, and Ironworld Discovery Center located in Chisholm. Giants Ridge operates two 18-hole championship golf courses and a winter sports area to standards that have earned national recognition. Giants Ridge offers 34 alpine ski runs, more than 60 km of cross-country ski trails and easy access to lakes, mountain bike trails and snowmobile trails.

Ironworld Discovery Center is a history museum that preserves the story of Iron Range mining and culture. Ironworld's museum, trolley operation and living history site are open seasonally while the Iron Range Research Center (library and archives) is open year around. Ironworld also is home to Iron Range Resources' Mineland Reclamation Program which undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. In 2005, Mineland Reclamation will grow and plant 300,000 containerized seedlings on the Mesabi, Vermilion and Cuyuna iron ranges.

Iron Range Resources funds tourism promotional activities in cooperation with the many regional partners in both the public and private sectors. The agency provides technical assistance to snowmobile, off-highway vehicle, hiking and biking trails groups to enhance tourism and quality of life.

Iron Range Resources also is helping to diversify Minnesota's iron mining industry by supporting the development of value-added iron and steel products and non-ferrous minerals. One of the latest developments is the construction and operation of a 25,000-ton per year pilot demonstration plant at Northshore Mining in Silver Bay, Minnesota. The Mesabi Nugget project produces 96 percent pure iron nuggets directly from iron ore, which then can be shipped to electric furnaces, basic oxygen furnaces and foundries to make steel, which would allow Minnesota to expand its iron ore customer base. Planning for a production-scale iron nugget plant at the Cliffs Erie site near Aurora-Hoyt Lakes also is underway. The Minnesota Pollution Control Agency issued permits in July to permit construction to begin. Minnesota Steel, another value-added project, continues to move toward building a slab steel production facility in Itasca County near Nashwauk.

Iron Range Resources also is enthusiastic about the possibilities non-ferrous minerals development holds for Minnesota. The deposits that show the greatest commercial potential are PolyMet's NorthMet Project, Teck Cominco's Mesaba Project and the Lehman Exploration and Franconia Minerals Birch Lake Project. Although Teck Cominco announced that their Mesaba Project in Minnesota is on hold, they continue to hold their mineral leases in Minnesota. Each of these deposits are potential copper, nickel, and precious metals commercial projects that will require additional financing, exploration and mineral processing development.

For fiscal year 2006, the Iron Range Resources Board has approved an operating budget of $24,510,320 to deliver the projects, programs and activities previously mentioned. The agency proposes to do so with a budgeted complement of 66.5 full-time employees as well as a number of temporary and seasonal personnel.

Iron Range Resources also assists the taconite industry, including $101,658,255 made available since 1993 to the Minnesota taconite producers for investments in new equipment, facilities and research. This is made possible through the rebate of production taxes from the Taconite Economic Development Fund (TEDF, Minnesota Statute §298.227). In 2001, the Legislature made the TEDF permanent and increased the distribution by 14.7-cents per ton to 30.1-cents beginning in 2002.

The agency has provided an additional $46,389,561 since 1993 to the taconite producers through its Taconite Assistance Program, Producer Grant Program (PGP, Minnesota Statute §298.2961) and other assistance. This amount includes $10 million appropriated in 1996 from the Douglas J. Johnson Trust Fund for the PGP through which Iron Range Resources provided grants to taconite producers for environmentally unique reclamation projects and facility improvements.

During 1993-2005, Iron Range Resources has reinvested a total of $148,229,994 in the Minnesota taconite industry through the above programs. These dollars have leveraged over $170 million from the producers to undertake projects exceeding $318 million.

Figure 20

FY 05 IRR Budget

(As approved by the Iron Range Resources Board on August 18, 2005)

Source of funds:	All accounts[1]	Board[2]	TEPF[3]	DJJ[4]	Supp tax[5]	IRP Funds[6]
Unobligated Operating Reserve In	16,821,796	3,098,845	9,568,720	4,154,231		
Taconite Production Taxes	14,215,837	4,285,914	9,929,923			
Investment Earnings	1,478,210	232,595	330,101	915,514		
Loan Revenues	1,833,313	38,536		1,794,777		
Contingent Revenue-IRP funds	750,000					750,000
Facilities Revenue	5,676,600	5,554,608		121,992		
Occupation Tax Region III	556,360				556,360	
Total - Current Year Revenues	**24,510,320**	**10,111,653**	**10,260,024**	**2,832,283**	**556,360**	**750,000**
Total Resources Available	**41,332,116**	**13,210,498**	**19,828,744**	**6,986,514**	**556,360**	**750,000**
Budgeted uses of funds:	**All accounts**	**Board**	**TEPF**	**DJJ**	**Supp tax**	**IRP Funds**
Administrative Services	3,066,381	1,972,425	1,093,956			
Attorney General Services	381,923	243,554		138,369		
Marketing, Communications & External Affairs	911,630	283,450	628,180			
Development Strategies	1,771,207	223,335	477,739	1,070,133		
Facilities						
Giants Ridge Golf & Ski Resort	7,032,347	7,032,347				
Ironworld Discovery Center	1786,996		1,786,996			
Agency Projects						
Development Projects	6,973,476	790,000	536,365	4,897,211		750,000
Operating Projects	2,030,000	1,150,000	880,000			
Region III Carlton/Koochiching Counties	556,360				556,360	
Total Budgeted Uses of Funds	**24,510,320**	**11,695,111**	**5,403,136**	**6,105,713**	**556,360**	**750,000**
Eveleth Building & Grounds Repair Fund	170,000	170,000				
Ironworld Endowment	10,000,000		10,000,000			
Giants Ridge Repair & Investment Fund	1,000,000	1,000,000				
Development Projects Fund	4,000,000		4,000,000			
Unobligated Operating Reserve Out	**$1,651,796**	**$345,387**	**$425,608**	**$880,801**		
	All Accounts	**Board**	**TEPF**	**DJJ**	**Supp tax**	**IRP Funds**

1) FY 2006 is for the period July 1, 2005 through June 30, 2006.
2) Board is specific amount appropriated to Iron Range Resources from production tax, page 9, subd. 7 and subd. 11 (c), page 10.
3) TEPF is the Taconite Area Environmental Protection Fund, page 12.
4) DJJ is the Douglas J. Johnson Economic Protection Trust Fund, page 10.
5) Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties, page 27.
6) In FY 2002, the Business and Community Development Program was awarded a 1 percent, $750,000 federal loan through the U.S. Department of Agriculture Intermediary Relending Program (IRP). Under this program, $750,000 potentially is available each year over a 20-year period for a total of $15 million.

Figure 21

Taconite Economic Development Fund Distribution to Northeast Minnesota Taconite Producers*

Summary

Payable 1993 through 2005 (on 1992 through 2004 production)

Company	1993 - 2004	2005 project description	2005 Amount	Total per company
United Taconite (former EVTAC Mining)	$8,176,338	Pending	$922,583	$9,098,921
Hibbing Taconite Company	17,220,158	3 new production trucks-replace 1 unit & add 2 new units	2,335,809	19,555,967
Ispat Inland Mining Company	6,592,235	Pending	849,594	7,441,829
LTV Steel Mining Company	11,361,981	Facility permanently closed in January 2001	0	11,361,981
U. S. Steel - Keewatin Taconite (former National Steel Pellet Company)	9,083,790	New Caterpillar 240 ton production truck	1,374,096	10,457,886
Northshore Mining Company	8,484,654	Pending	1,483,679	9,968,333
U.S. Steel - Minntac	29,692,063	Pending	4,263,453	33,955,516
Totals	**$90,611,219**		**$11,229,214**	**$101,840,433****

10.4 cpt in 1993
15.4 cpt in 1994,1995 & 1996
20.4 cpt in 1997
15.4 cpt in 1998, 1999, 2000 & 2001
30.1 cpt in 2002 & thereafter
Note: cpt = cents per ton

30.1 cpt:	$10,709,280
Chips and fines credit:	519,934
Total:	**$11,229,214**

* In accordance with M.S. 298.227.
** Figure includes amounts pending

A brief explanation of the TEDF is included on page 5.

Figure 22

Taconite Industry Investments 1993 through 2004

Company	Taconite Assistance Program	Taconite Economic Development Fund	Producer Grant Program	Other assistance	Total
EVTAC Mining (former EVTAC Mining)	$2,000,000	$9,098,921	$2,263,294	$1,500,000	$14,862,215
Hibbing Taconite Company	2,000,000	19,555,967	4,026,531	1,000,000	26,582,498
Ispat Inland Mining Company	2,000,000	7,441,829	1,328,226		10,770,055
LTV Steel Mining Company (Permanently closed in January 2001)	2,000,000	11,361,981	2,675,966		16,037,947
U.S. Steel - Keewatin Taconite (former National Steel Pellet Company)	2,000,000	10,457,886	2,327,192	6,173,375	20,958,453
Northshore Mining Company	2,000,000	9,968,333	2,033,805		14,002,138
U.S. Steel - Minntac	2,000,000	33,955,516	6,811,172	2,250,000	45,016,688
Total Investment	**$14,000,000**	**$101,840,433**	**$21,466,186**	**$10,923,375**	**$148,229,994***
Grand total	**$148,229,994***				

* Figure includes amounts pending.

Occupation Tax on Taconite and Iron Ore

(Minnesota Statute 298.01 — 298.18)

The Minnesota Constitution mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the occupation tax is generally computed in accordance with the Minnesota corporate franchise (income) tax, including the alternative minimum tax (AMT).

The occupation tax is paid in lieu of the corporate franchise tax; therefore, *mining companies are exempt from corporate income tax.*

Change s in Apportionment

The 1999 Legislature changed the apportionment formula from 70-15-15 to 75-12.5-12.5. This represents sales, payroll and property factors. *The law is effective for tax years beginning after December 31, 2000.* All transfers in accordance with the statutes to out-of-state steel plants are considered non-Minnesota sales. This means that for production in 2001 and subsequent years, the mining income subject to the 9.8 percent corporate franchise tax rate will be reduced from 30 percent to 25 percent. This reduces the effective tax rate from 2.94 percent to 2.45 percent.

Occupation Tax Apportionment for tax years after December 31, 2006. The First special Session in 2005 amended M.S. Section 298.01, Subds. 3 and 4 to provide that the phase-in of single factor apportionment does not apply to the Minnesota Occupation tax Thus, the single factor phase-in applies only to the Minnesota Corporate franchise tax.

Occupation Tax Return

The starting value of the occupation tax is the mine value, determined by the commissioner of the Minnesota Department of Revenue and published in the annual *Occupation Tax Directive*.

Generally, occupation tax is determined in the same manner as the corporate franchise tax imposed by M.S. Section 290.02 but there are two exceptions:

1) The tax is *nonunitary* because it applies only to the Minnesota mine and plant.

2) Mining companies are allowed percentage depletion. This deduction is a tax preference item for the alternative minimum tax calculation.

The occupation tax applies to both ferrous and nonferrous minerals, including not only taconite and iron ore, but other minerals such as gold, silver, copper, nickel and titanium. The occupation tax due date is May 1 of the following year but companies may choose a seven-month extension to file.

Readers with questions about the occupation tax mine value or how the return is prepared are invited to contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Mine Value

The procedure to determine any change in mine value was developed by the Minnesota Department of Revenue and representatives from the taconite industry. The procedure used since December 1990 is:

1) Seventy-five percent of the change in mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year; and

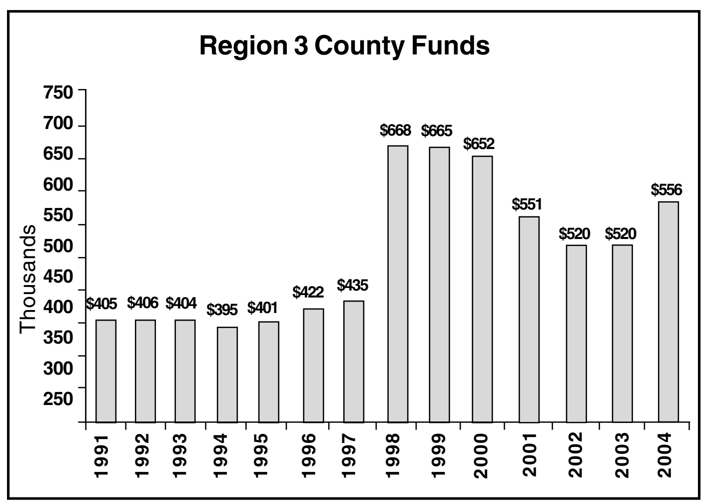
2) Twenty-five percent of the change in mine value reflects the actual transaction prices of taconite pellets sold in nonequity sales.

A copy of the *Final Directive* and backup for 2004 are on the following two pages. They show how the value per Fe (iron) unit is determined.

Occupation Tax Distribution

All occupation tax is deposited in the State General Fund. Fifty percent is dedicated to education. Forty percent of the occupation tax is distributed to elementary and secondary schools and ten percent to the University of Minnesota.

Region 3: An amount equal to one and one-half cents per taxable taconite ton is appropriated from the occupation tax to the IRRR for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching Counties qualify. This money must be used to provide economic or environmental loans or grants. *The amount distributed in 2005 was $556,360 based on 37,090,691 taxable tons produced in 2004. Prior to 1998, the amount distributed was based on one cent per taxable ton. If the remaining 50 percent is insufficient to equal the 1–1/2 cents per ton after the constitional distribution to education, the remainder to the two counties is reduced.*



Final Directive - 2004 Occupation Tax
Basic data for preparing 2004 occupation tax reports

Taconite

The starting point for occupation tax is the mine value, such as the value of taconite pellets *after* beneficiation or processing, but *prior* to any stockpiling, transportation, marketing and marine insurance, loading or unloading costs.

Dry basis reporting. The production tonnage for both occupation tax and production tax must be reported on a dry basis. The reported weights and analysis must correspond. For example, the weighing and sampling *must* take place at or near the same location. No moisture addition or drying should occur between the points of sampling and weighing. Weighing at a location removed from the point of sampling may be used with approval and verification of the Minnesota Department of Revenue.

Non-arms-length transactions. When taconite pellets, chips or concentrate are used by the producer or disposed of or sold in a *non-arms-length transaction,* the mine value must be determined using the values below.

Non-arms-length transactions include, but are not limited to, any sales or shipments to: 1) any steel producer having any ownership interest in the selling or shipping company, or 2) any steel producer affiliated or associated with any firm having any ownership or other financial interest in the selling or shipping company.

Non-equity (arms-length) transactions. When taconite (pellets or concentrate) is sold by the producer in a non-equity or arms-length transaction, the mine value (for occupation tax purposes) must be either: 1) the actual sales price (f.o.b. mine); *or* 2) the mine value as determined using the prices below.

The mining company may elect either option, but *once it selects an option, it must continue to use that option for all arms-length transactions.*

Taconite producers with nonequity sales since 1990 have made their election. Only those with first-time nonequity sales in 2003 may select the actual sales price option for the first time. Any request for a change in the option elected must receive approval from the Minnesota Department of Revenue. Transactions must meet the definition of non-equity (arms-length) transactions previously defined.

Flux Pellets. Any company utilizing the *production tax weight reduction for flux additives* must use the flux pellet value for that production. The fluxed pellet production weight must include the weight of the flux additive for occupation tax purposes only.

Chips, Fines and Concentrate. A separate mine value for pellet chips (fines) and concentrate is used. The value of acid pellet chips or concentrate is 75 percent of the value of acid pellets. Flux pellet chips or concentrate is valued at 75 percent of the producers' flux pellet value. In order to qualify for this lower mine value, pellet chips must qualify for the Taconite Economic Development Fund. The chips or concentrate can be stockpiled or shipped, but the chips cannot be commingled with or shipped with regular pellets. All production or shipments not meeting this definition must be valued at the appropriate higher pellet value.

Taconite Values

Pellet price per Fe (iron) unit (per dry gross ton) for the period Jan. l, 2004 through Dec. 31, 2004:

Taconite product	Mine value
Acid pellets	$0.62617 per iron unit
Pellet chips (fines) and concentrate	75% of acid or fluxed pellet price
Flux Pellets – partial flux (.1% – 1.99% flux)*	$0.62617 + $0.0155 = $0.64167
Flux (2.00% and higher flux) *	$0.62617 + $0.0155 per iron unit for each 1% flux

Example: Pellet with 4.8% flux in finished pellet: 4.0 x $0.0155 = $0.062

Mine value: $0.62617+ $0.062 = $0.68817

* The percentage of flux in the pellets for occupation tax purposes will be as determined by the formula for the production tax flux credit.

Backup 2004 Data to Final Directive
2004 Occupation Tax Report

Backup data

Final Directive

The 1990 agreement between the taconite producers and the Minnesota Department of Revenue provided that any change in mine value would be determined by two factors:

1. the change in the Steel Mill Products Index (SMPI) from June of the prior year to June of the current year (75 percent); and
2. the change in the actual selling price of non-equity sales (25 percent).

The directive was determined using the final adjusted June 2003 SMPI (108.8) and final, adjusted June 2004 SMPI (147.0). The nonequity sales factor was developed from completed reports provided by the taconite producers and steel companies making *nonequity sales and/or purchases of taconite pellets.*

Acid Pellets — How Value is Determined

The mine value of acid pellets is determined by the change in the SMPI between June 2003 and June 2004 and the non-equity sales per dry gross ton Fe (iron) unit. The price of all non-equity pellet sales is converted to an acid sales price.

Steel Mill Products Index (SMPI)				
June, 2003 SMPI (Final)		108.8	2003 Mine Value	$0.047315
June, 2004 SMPI (Final)		147.0	2004 SMPI % of 2003 Value	x 135.110%
147.0 ÷108.8	=	135.110%	2004 SMPI Factor	$0.63927

Non-equity Sales						
Weighted average all pellet sales price		Weighted average all pellet sales price per long ton		Weighted average all pellet sales **dry Fe (iron) analysis**		Weighted average sales price **per Fe (iron) unit**
$413,338,084 / 10,798,545 Tons sold	=	$38.2772	÷	65.22	=	$0.58687

Acid Pellet Mine Value					
SMPI	$0.63927	x 75%	=	$0.47945	**2004 acid pellet mine value**
Nonequity sales	$0.58689	x 25%	=	0.14672	
				$0.62617	$0.62617 per Fe (iron) unit

Flux Pellets - How to Determine Value

The value of flux pellets is determined by the amount of flux in the finished pellet as determined for production tax purposes.

Partial flux - Pellets with 1.99 percent or less flux will be valued at $0.0155 per Fe (iron) unit higher than acid pellets:

$0.62617 + $0.0155 = $0.64167

Flux - Pellets containing two percent flux or more will be valued at $.0155 per Fe (iron) unit *per each one percent of flux* in the finished pellet. Percentages are: 2% – 2.99%; 3% – 3.99%, etc.

Percent (%) flux in finished pellet (4.8%)* 4.0 x $.0155

*(From page 1 - *Production Tax Report*) rounded down to the closest percent, for example, 4.82% rounded to 4%.

The Mine Value of Flux Pellets (4.82% Flux) is: $0.62617 + $0.062 = $0.68817per Fe (iron) unit.

Mine Value - Chips and Concentrates

A pellet chip and concentrate value is included for companies selling pellet chips or concentrate. Acid chips or concentrate is valued at 75 percent of the acid pellet price. Flux chips or concentrate is valued at 75 percent of the flux pellet value. Concentrate sold or shipped without being processed into pellets uses the same value as chips.

Figure 23

Occupation Tax Mine Value-Taconite (Historical Summary)

Year	Acid pellet price per Fe unit		Percent Fe		Lake Erie value per ton	Less transportation		Mine value
1965	$0.25200	x	65.00%	=	$16.38	$3.64	=	$12.740
1970	0.26600	x	65.00%	=	17.29	4.05	=	13.240
1975	0.46020	x	65.00%	=	29.91	6.83	=	23.080
1980	0.72890	x	65.00%	=	47.38	10.70	=	36.680
1982-1984	0.86900	x	65.00%	=	56.49	12.69	=	43.800
1985-1987	0.72500	x	65.00%	=	47.13	13.07	=	34.060

Year		Acid pellet price per Fe unit		Flux premium		Flux pellet price per Fe unit		Percent Fe			Mine value	
								Acid	Flux		Acid	Flux
1987-1989	Acid	$0.37344					x	65		=	$24.27	
	Flux (1%)					$.38888	x		62	=		$24.11
1990-1992*	Acid	0.42000					x	65		=	27.30	
	Flux (4%)	0.42000	+	.062	=	.48200	x		62	=		29.884
1994	Acid	0.43900					x	65		=	28.535	
	Flux (4%)	0.43900	+	.062	=	.50100	x		62	=		31.062
1996	Acid	0.46400					x	65		=	30.16	
	Flux (4%)	0.46400	+	.062	=	.52600	x		62	=		32.612
1998	Acid	0.47400					x	65		=	30.81	
	Flux (4%)	0.47400	+	.062	=	.53600	x		62	=		33.23
1999	Acid	0.44800					x	65		=	29.12	
	Flux (4%)	0.44800	+	.062	=	.51000	x		62	=		31.62
2000	Acid	0.46600					x	65		=	30.29	
	Flux (4%)	0.46600	+	.062	=	.52800	x		62	=		32.74
2001	Acid	0.44000					x	65		=	28.60	
	Flux (4%)	0.44000	+	.062	=	.50200	x		62	=		31.12
2002	Acid	0.45735					x	65		=	29.73	
	Flux (4%)	0.45735	+	.062	=	.51935	x		62	=		32.20
2003	Acid	0.47315					x	65		=	30.75	
	Flux (4%)	0.47315	+	.062	=	.53515	x		62	=		33.18
2004	Acid	0.62617					x	65		=	40.70	
	Flux (4%)	0.62617	+	.062	=	.68817	x		62	=		42.67

* Beginning in 1991, the value of flux pellets was modified to $.0155 per each one percent flux in the pellets. A lower value of 75 percent of the pellet price is allowed for chips and fines.

Figure 24

Occupation Tax Mine Value and Occupation Tax Paid

Production year

Company	Employment[1] 2003	2004	2004 tons produced	2004 mine value	Occupation tax paid[2] (preliminary)
Taconite:					
Hibbing Taconite	685	681	8,127,233	343,579,309	1,160,000
Ispat Inland	347	342	2,847,775	125,006,425	135,000
Northshore	488	489	4,932,555	204,843,181	0
USS-Keetac/National	364	373	5,371,699	216,486,765	1,000,000
USS-Minntac	1,400	1,179	14,848,142	637,197,465	3,000,000
United Taconite	323	380	4,050,636	164,916,361	364,500
Taconite totals	**3,607**	**3,444**	**40,178,040**	**$1,692,029,506**	**$5,659,500**
Natural ore:					
Auburn Minerals, L.L.C.	0	0	0	$0	$0
Natural ore totals	0	0	**0**	**$0**	**$0**
Grand total	**3,607**	**3,444**	**40,178,040**	**$1,692,029,506**	**$5,659,500**

1 Employment information from *St. Louis County Mine Inspector Annual Report - 2004*. Because of mine ownership changes, some employees might be counted twice.

2 An automatic seven-month extension is granted if 90 percent of the tax is paid May 1. The exact tax liability for the year will not be known until December 1.

Figure 25

Occupation Tax Paid by Company

Taconite	1996 (000's)	1998 (000's)	1999 (000,s)	2000 (000's)	2001 (000's)	2002 (000's)	2003 (000's)	2004 (000's)
Hibbing Tac	$483	$466	$39	$309	$0	$0	$7	$1,160
Ispat Inland	0	0	30	0	0	15	35	135
National Steel	0	0	18	0	0	26	0	0
Northshore	148	71	75	0	0	0	0	0
United Tac	0	0	0	0	0	0	0	365
USS - Minntac	1,087	1,612	1,144	1,032	0	1,300	1,400	3,000
USS - Keetac	0	0	0	0	0	0	0	1,000
Taconite total	**$1,718**	**$2,197**	**$1,183**	**$1,341**	**$0**	**$1,341**	**$1,442**	**$5,660**
Natural ore	**1996**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Auburn	$175	$87	0	168	60	0	0	0
Natural ore total	**$175**	**$87**	**$0**	**$168**	**$60**	**$0**	**$0**	**$0**
Total tax paid	**$1,893**	**$2,284**	**1,183**	**$1,509**	**$60**	**$1,341**	**$1,442**	**$5,660**

Figure 26

Reconciliation of Occupation Tax and Production Tax Tonnages - 2004*

Company	Gross natural tons	Less: moisture	Occupation tax production tons (dry weight)	Less: flux	Production tax production tons
Acid pellets, chips, and fines					
Northshore Mining	63,831	0.00%	63,831	0	63,831
USS-Minntac	2,654,841	2.11%	2,598,955	0	2,598,955
Subtotal	2,718,672		2,662,786	0	2,662,786
Flux pellets, chips, and fines					
Hibbing	8,224,654	1.18%	8,127,233	(25,285)	8,101,948
Ispat Inland	2,905,895	2.00%	2,847,775	(153,804)	2,693,971
Northshore	4,868,724	0.00%	4,868,724	(19,961)	4,848,763
USS-Keetac	5,437,236	1.21%	5,371,699	(27,784)	5,343,915
USS-Minntac	12,558,471	2.46%	12,249,187	(520,414)	11,728,773
United Taconite	4,107,485	1.38%	4,050,636	(19,765)	4,030,871
Subtotal	38,102,465		37,515,254	(767,013)	36,748,241
Total production summary					
Acid	2,718,672		2,662,786	0	2,662,786
Flux	38,102,465		37,515,254	(767,013)	36,748,241
Totals:	**40,821,137**		**40,178,040**	**(767,013)**	**39,411,027**

* The taconite production tax and the occupation tax use different production tonnages. This table is a reconciliation showing the total production for each company, *including* flux and moisture and *excluding* flux and moisture.
This was the actual production. No provisions were made for companies that filed for bankruptcy. Tons are combined total of pellets, chips and fines.

Figure 27

Crude Ore Mined

Company	2000	2001	2002	2003	2004
EVTAC	12,692,100	13,449,311	13,283,572	4,757,441	0
Hibbing	30,533,879	22,458,384	26,415,447	28,138,485	29,393,678
Ispat Inland	8,630,112	8,211,395	8,319,510	8,239,770	8,514,334
LTV	22,879,131	0	0	0	0
National	19,759,549	16,836,232	19,068,584	6,341,785	0
Northshore	12,373,033	8,603,443	12,129,604	14,124,206	13,927,252
USS-Keetac	0	0	0	9,663,022	18,943,162
USS-Minntac	50,291,700	45,303,626	50,902,144	49,423,806	51,952,504
United Taconite	0	0	0	438,980	13,397,820
Totals:	**157,159,504**	**114,862,391**	**130,118,861**	**121,127,495**	**136,128,750**

Figure 28

Occupation Tax Collected on Iron Ore and Taconite Production

	Iron ore		Taconite		Totals	
Year	**Tons produced (000s)**	**Occupation tax (000s)**	**Tons produced (000s)**	**Occupation tax (000s)**	**Tons produced (000s)**	**Occupation tax (000s)**
1960	44,042	$20,655	13,390	$638	57,432	$21,293
1965	33,462	15,646	19,004	1,740	52,466	17,386
1967	25,480	12,646	24,311	1,611	49,791	14,257
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808*	45,281	14,808
1981	1,664	1,232	49,369	11,372*	51,033	12,604
1982	789	719	23,445	0*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109	5,356	33,512	6,145
1988	743	294	39,772	2,993	40,515	3,287
1989	603	160	39,882	350	40,485	510
1990	417	11	42,522**	2,057	43,593	2,068
1991	406	32	39,922**	2,008	40,328	2,040
1992	528	38	38,850**	1,551	39,956	1,589
1993	145	0	40,485**	1,709	40,630	1,709
1994	318	22	42,448**	2,302	42,766	2,324
1995	349	87	45,857**	3,072	46,206	3,159
1996	441	176	44,711**	2,460	45,152	2,636
1997	501	213	45,688**	2,508	46,007	2,721
1998	392	87	45,196**	2,152	45,588	2,238
1999	235	0	42,156**	1,183	42,391	1,183
2000	400	168	45,762**	1,341	46,162	1,509
2001	150	56	32,360**	0	32,510	56
2002	161	0	38,313**	1,341	38,473	1,341
2003	0	0	34,935	1,442	34,935	1,442
2004	0	0	40,178	5,660	40,178	5,660

* Actual tax collected as adjusted by the provisions of M.S. 298.40. For additional information, see the 1991 *Minnesota Mining Tax Guide* or contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

** Refer to *Figure 26,* page 32 — Beginning with 1990 production, the Minnesota Department of Revenue changed from natural weight to dry weight.

Figure 29

Taconite Industry Occupation Tax Report Averages on a Per Ton Basis

Year	Tons produced (000 tons)	Average value[1]	Transportation[2]	Cost of beneficiation[3]	Cost of mining[4]	Development	Taconite & property tax paid	Sales and use tax paid	Admin. and misc. expense	Royalty	Taxable value of production	Occupation tax paid
1976	40,575	32.20	7.61	11.33	3.25	1.22	0.25	0.18	0.78	1.08	6.50	0.45
1977	26,372	34.83	8.13	17.37	4.82	1.42	0.37	0.28	1.37	1.11	0.03	0.12
1978	49,545	37.08	8.77	14.73	4.10	1.50	0.25	0.17	1.08	1.26	5.23	0.39
1979	55,333	41.31	9.93	16.09	4.26	1.76	0.25	0.23	1.30	1.32	6.17	0.44
1980	43,060	46.37	10.68	20.87	5.03	2.01	0.30	0.21	1.52	1.44	4.31	0.32
1981	49,369	51.11	13.31	20.99	5.52	2.16	0.27	0.19	2.15	1.71	4.84	0.26
1982	23,445	53.95	12.66	31.01	6.23	2.21	0.42	0.27	4.44	2.08	(5.37)	0.14
1983	25,173	56.19	13.03	26.62	4.95	1.49	0.37	0.19	4.82	1.83	2.88	0.45
1984	35,689	56.48	13.08	19.85	4.23	2.00	0.27	0.20	4.53	1.69	10.63	0.84
1985	33,265	47.10	13.06	19.29	4.24	1.57	0.29	0.19	4.40	1.65	2.41	0.30
1986	24,017	47.14	13.02	18.47	4.32	0.90	0.32	0.22	4.48	1.50	3.69	0.26
1987	32,109	26.77	0.05	15.60	3.28	0.56	1.68	0.18	3.38	1.28	0.76	0.17
1988	39,786	24.33		14.90	3.56	0.86	1.52	0.19	2.73	1.18	(0.61)	0.08
1989	39,882	24.42		15.90	4.16	1.08	1.83	0.23	3.02	1.16	(2.97)	0.01
1990	43,176	27.44		16.29	4.51	1.08	1.93	0.26	3.01	1.13	(0.76)	0.05
1991	40,619	28.75		16.84	4.67	1.36	2.10	0.27	3.53	1.16	(1.17)	0.05
1992	39,428	28.86		17.00	4.49	1.43	2.10	0.27	4.28	1.29	(1.99)	0.04
1993	40,485	28.98		16.09	4.49	1.26	1.94	0.27	4.05	1.08	(0.21)	0.04
1994	42,448	30.14		16.43	4.71	1.58	1.94	0.27	3.76	1.09	0.38	0.05
1995	45,857	32.53		16.62	4.70	1.56	1.85	0.25	3.71	1.22	2.63	0.07
1996	44,618	31.75		18.01	5.28	1.68	2.04	0.27	4.02	1.27	(0.83)	0.06
1997	45,659	32.50		17.50	4.95	1.82	2.04	0.22	3.91	1.18	0.89	0.06
1998	45,196	32.69		17.58	4.94	1.64	2.03	0.03	3.90	1.19	1.25	0.05
1999	42,125	31.02		18.17	5.42	1.62	2.11	0.08	3.96	1.19	(1.57)	0.03
2000	45,762	32.03		19.14	4.98	1.62	2.13	0.12	3.55	1.32	(0.86)	0.03
2001	32,291	30.75		19.25	5.88	1.15	2.35	0.09	4.88	1.25	(4.09)	0.00
2002	38,313	31.68		16.74	5.16	1.27	1.92*	0.07	3.24	1.11	2.18	0.04
2003	34,935	33.37		16.11	5.74	1.05	1.72	0.08	3.73	1.18	(0.37)	0.04
2004	40,178	42.15		18.30	6.06	0.94	2.00	0.04	4.35	1.51	8.95	0.14

1. This average value will not match the values on *Figure 24,* page 31, because this is an average of all taconite produced (acid, flux, chips, concentrate).
2. Transportation consists of the rail and lake transportation allowance and marketing and marine insurance from the occupation tax directives through April 30, 1987.
3. Cost of beneficiation includes beneficiation labor, supplies, depreciation, interest, and miscellaneous, *Figure 30*, page 35.
4. Cost of mining is the total mining labor, mining supplies and depreciation, *Figure 30*.

For 1990 and later, the information on the above table comes from the *Production Cost Summary Information Report* (based on the pre-1990 *Occupation Tax Report*). *Occupation Tax Report* no longer provides this detail.

Figure 30

Taconite Industry Occupation Tax Report Average Cost Per Ton

Beneficiation

Year	Tons produced (000 tons)	Beneficiation labor (000s)	Per ton	Beneficiation supplies (000s)	Per ton	Beneficiation depr. and int. (000s)	Per ton	Beneficiation/ miscellaneous per ton	Total beneficiation per ton
1984	35,689	112,415	3.15	419,708	11.76	173,211	4.85	0.09	19.85
1986	24,017	64,990	2.71	259,928	10.82	116,637	4.86	0.09	18.47
1988	39,786	90,047	2.26	389,070	9.78	109,732	2.76	0.10	14.90
1990	43,176	116,305	2.69	471,931	10.93	110,641	2.56	0.10	16.29
1992	39,428	137,850	3.50	412,429	10.46	101,392	2.57	0.47	17.00
1994	42,448	123,354	2.91	469,106	11.05	98,752	2.33	0.15	16.43
1996	44,618	151,535	3.40	545,974	12.24	97,451	2.18	0.20	18.01
1998	45,196	152,743	3.38	552,479	12.22	84,750	1.86	0.10	17.58
1999	42,125	140,787	3.34	532,013	12.63	88,746	2.11	0.10	18.17
2000	45,762	159,066	3.48	628,526	13.74	79,856	1.75	0.18	19.14
2001	32,291	102,021	3.16	434,459	13.46	75,445	2.34	0.30	19.25
2002	38,313	102,497	2.68	457,091	11.93	72,639	1.90	0.24	16.74
2003	34,935	89,851	2.57	396,029	11.34	58,627	1.68	0.52	16.11
2004	**40,178**	**101,019**	**2.51**	**541,982**	**13.49**	**63,834**	**1.59**	**0.71**	**18.30**

Mining

Year	Tons produced (000s)	Mining labor (000s)	Per ton	Mining supplies (000s)	Per ton	Cost of mining	Mining depreciation (per ton)	Total mining costs per ton
1984	35,689	60,957	1.71	63,600	1.78	3.49	0.74	4.23
1986	24,017	39,162	1.63	43,290	1.80	3.43	0.88	4.32
1988	39,786	55,238	1.39	67,491	1.70	3.08	0.47	3.56
1990	43,176	70,770	1.64	105,330	2.44	4.08	0.43	4.51
1992	39,428	75,363	1.91	87,287	2.21	4.13	0.36	4.49
1994	42,448	81,778	1.93	101,974	2.40	4.33	0.38	4.71
1996	44,618	83,441	1.87	131,305	2.94	4.81	0.46	5.28
1998	45,196	81,703	1.81	127,659	2.83	4.63	0.31	4.94
1999	42,125	78,321	1.86	132,620	3.15	5.01	0.42	5.42
2000	45,762	72,608	1.58	140,198	3.06	4.65	0.33	4.98
2001	32,291	61,996	1.92	113,732	3.52	5.44	0.43	5.88
2002	38,313	68,142	1.78	113,560	2.96	4.74	0.42	5.16
2003	34,935	61,008	1.75	123,612	3.54	5.28	0.45	5.74
2004	**40,178**	**82,485**	**2.05**	**142,550**	**3.55**	**5.60**	**0.46**	**6.06**

For 1990 and later, the information on this table is based on the *Production Cost Summary Information Report* (from the pre-1990 *Occupation Tax Report*).

Income Tax Withholding on Mining and Exploration Royalty

(Minnesota Statute 290.923)

Income tax withholding is a 6.25-percent tax assessed on exploration and/or mining royalty income. This section defines royalty, identifies who must pay the tax, and outlines the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost by company per ton of pellets produced (*Figure 32*) and the industry-wide cumulative total royalty paid and income tax withholding *(Figure 31*, page 37).

Royalty is defined as any amount (in money or value of property) received by any person having any right, title or interest in or to any tract of land in Minnesota for permission to explore, mine, take out or remove ore. Ores subject to withholding are iron, taconite, and other minerals (copper, nickel, gold, etc.) subject to the net proceeds tax. Royalties may include rents, bonus payments, and non-recoverable lease payments.

Withholding Income Tax on Royalties

All payers of mining or exploration royalties are required to withhold and remit an income tax of 6.25 percent on royalties paid for use of Minnesota lands (effective Jan. 1, 2001). **Note:** This does not include royalties paid to partnerships, S corporations and C corporations. Royalties paid to these entities should not have income tax withheld. See below for information on royalties paid to trusts.

Royalty payers have the option of reporting royalty withholding with their regular wage/salary withholding, or reporting it under a separate Minnesota tax ID number used for royalty withholding only. If you choose to report royalty withholding separately, you must first register for a separate ID number. Go to the department's website at www.taxes.state.mn.us and register for an ID number online or call 651-282-5225. Then, file your royalty withholding returns separately from your wage/salary withholding. All withholding returns must be filed electronically through the department's e-File Minnesota system. Go to the department's website for more information.

Federal Form W-4. Royalty payers must have all new employees complete federal Form W-4 to determine their federal and Minnesota withholding allowances. For Minnesota, employees may claim up to, but not more than, the number of federal allowances they claim.

Keep all W-4 forms in your records.

If they choose the same number of federal and Minnesota withholding allowances, only one W-4 form is necessary. If they claim fewer Minnesota withholding allowances than federal allowances, they must complete a second W-4 form listing the Minnesota allowances (write "Minnesota Only" across the top of the Minnesota allowances form). If the employee does not provide a completed W-4 before the first wage payment, withhold tax as if he or she is single with no withholding allowances.

You are not required to verify the number of withholding allowances claimed by each employee. You should honor each W-4 form unless we notify you that it is not valid.

You must, however, send the department a copy of any W-4 form on which:

- an employee claims more than 10 withholding allowances;
- an employee claims to be exempt from Minnesota withhold ing and you reasonably expect the wages to exceed $200 per week, unless he or she has completed Form MWR, *Reciprocity Exemption/Affidavit of Residency;* or
- you believe an employee is not entitled to the number of exemptions he or she claimed.

Send required W-4 copies to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

If you don't send us a copy of Form W-4 when required, you are subject to a $50 penalty for each required certificate you do not send. An employee who knowingly files an incorrect W-4 form will be subject to a $500 penalty for each incorrect certificate filed.

Federal Form 1099 MISC. Royalty payers must also provide each royalty recipient with a federal Form 1099 MISC by January 31 for royalties paid during the previous year. Follow the federal requirements to issue 1099s to persons to whom you made payments. Enter MN in the "State" space, and fill in the amount of Minnesota income tax withheld for that royalty recipient during the year.

Mail the 1099s by March 1 to: Minnesota Revenue, Mail Station 1173, St. Paul, MN 55146-1173. Also mail a copy to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

Magnetic Media Reporting. Royalty payers who are required to send federal W-2 wage detail and 1099 information on magnetic media are required to submit that information to Minnesota on magnetic media as well. Use Social Security Administration (SSA) Publication (MMREF-1), IRS Publication 1220, and the department's Fact Sheet 2 to prepare your magnetic media for Minnesota. Minnesota accepts returns on magnetic media allowed by the federal government, except reel-to-reel tapes and cartridges.

Royalties Paid to Trusts

Simple trusts (i.e., trusts that distribute all royalty income to their beneficiaries) are exempt from withholding on royalties unless they elect to have tax withheld by the royalty payer. If the trust elects to have tax withheld, it must notify the royalty payer of its decision by providing the payer with a federal W-4 form. If the trust chooses tax-exempt status, the trust becomes the "royalty payer" and is responsible for withholding tax from its beneficiaries as well as complying with all withholding tax requirements, including:

- Informing beneficiaries of the requirements to withhold tax and providing them with W-4 forms;
- Providing beneficiaries with 1099 MISC forms each year by January 31 for royalties received the previous year; and
- Filing all required withholding returns electronically with the State of Minnesota.

Royalty Recipients

Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year are exempt from the withholding tax. Nonresident individuals will not incur a Minnesota income tax liability for 2005 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $8,200. A W-4 exemption certificate must be filed with the royalty payer so that Minnesota income tax will not be withheld from the royalties received.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return, M-1NR, to obtain a refund. Royalty recipients *are not* eligible to use percentage depletion on their individual income tax returns.

Questions

Questions should be directed to the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

An instruction booklet, *Minnesota Income Tax Withholding,* is available on the department's website. Although the booklet is designed for withholding on Minnesota wages, the general filing requirements also pertain to royalty withholding.

Royalty Tables

The royalty costs per ton beginning in 1970 to the present are shown in *Figures 33*, page 38.

Figure 31

Royalty Paid and Income Tax Withheld
(Taconite, natural ore and others)

Year	Royalty paid	Income tax withheld
1995	$48,160,466	$302,067
1996	$53,751,312	$452,575
1997	$53,902,838	$582,936
1998	$52,945,700	$446,258
1999	$49,904,447	$493,350
2000	$54,225,938	$414,658
2001	$45,448,947	$265,587
2002	$37,903,733	$142,422
2003	$45,173,508	$216,629
2004	$56,726,329	$201,782

Royalties paid to the state on state-managed mineral lands are not subject to withholding tax. However, these revenues are allocated by law primarily for educational purposes.

The Minnesota Department of Natural Resources manages state-owned mineral rights for the permanent school fund, permanent university fund, and taxing districts throughout the state. Interest and dividends from the permanent school fund are distributed to school districts throughout the state. Interest and dividends from the permanent university fund are split between a scholarship account for students at the University of Minnesota and for minerals research conducted by the Natural Resources Research Institute.

Revenue from mining on tax forfeited lands is split between the state's general fund (20 percent) and local taxing districts (80 percent). From the 80 percent distributed to local taxing districts, 3/9 of the revenue goes to the county, 4/9 to the school district and 2/9 to the township or city where the mining occurs.

For more information, contact the Transactions Section, Lands and Minerals Division, DNR, in St. Paul (see address and phone information before the table of contents).

Figure 32

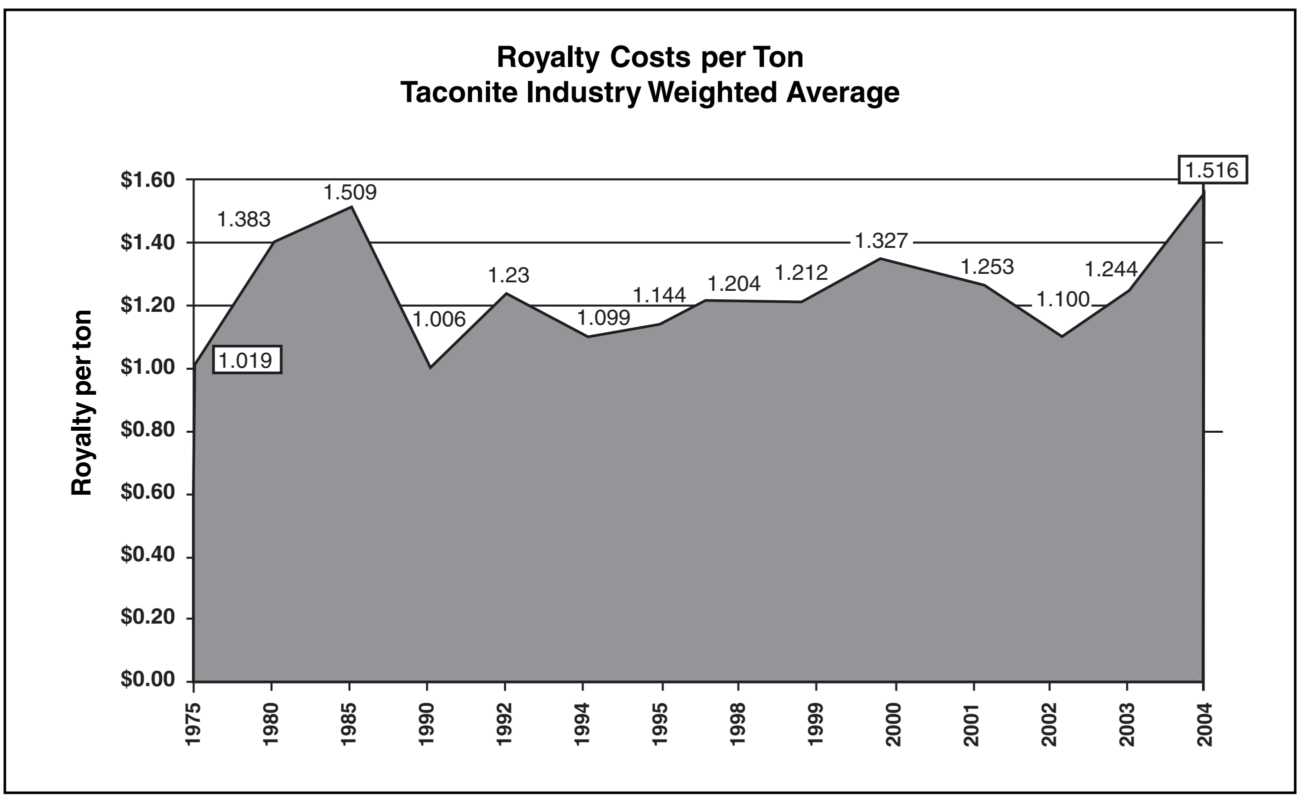
Average Royalty Cost Per Ton of Pellets Produced

	1980	1985	1990	1995	1998	1999	2000	2001	2002	2003	2004
Industry Production (millions of tons)	42.9	33.3	43.2	45.9	44.3	41.3	44.9	32.2	38.3	34.9	39.4
Eveleth/EVTAC***	3.578	2.621	1.644	1.416	1.459	1.742	1.986	1.733	1.287	NA	NA
Hibbing***	0.398	0.772	0.805	1.495	1.646	1.608	1.561	1.867	1.338	1.492	1.631
Minorca (Ispat)	1.212	1.801	1.396	0.810	1.087	0.920	0.997	1.055	1.056	1.097	1.298
National	1.525	2.001	2.041	1.606	0.960	0.985	0.943	1.064	0.943	1.114	0
Reserve/Northshore**	2.82	3.087	1.35	1.472	1.846	1.611	1.690	1.459	1.614	1.716	2.659
United Taconite	–	–	–	–	–	–	–	–	–	–	1.333
USS – Minntac	0.288	0.334	0.239	0.397	0.667	0.754	0.948	0.840	0.844	0.990	1.180
USS – Keewatin	–	–	–	–	–	–	–	–	–	1.217	1.463
Industry Average – Weighted	1.383	1.509	1.006	1.144	1.204	1.212	1.327	1.253	1.100	1.244	1.516
Arithmetic	1.673	1.857	1.252	1.249	1.298	1.287	1.394	1.336	1.180	1.271	1.594

** Reserve's/Northshore's royalty costs per ton are based primarily on shipments, not production.

*** Royalty stated on a calendar year (cash) basis with overrides to partners subtracted since 1980. Tonnages used are a "dry" basis, which began in 1990.

Figure 33



Sales and Use Tax
Taconite and Iron Ore

(Minnesota Statute 297A)

The general Minnesota sales and use tax is a broad-based tax on consumer expenditures. The tax is imposed on the sale of tangible personal property or services to the final consumer. A number of exemptions reduce the size of the actual sales and use tax base. In addition, different tax rates apply to several products.

The current sales tax rate is 6.5 percent. First adopted in 1967, Minnesota's sales and use tax is now the second largest source of state tax revenue, yielding *$3.956 billion in fiscal year 2003.*

Sales and use taxes are essentially identical taxation of tangible personal property. Sales tax is assessed by the seller at the time of the sale. Use tax is paid by the purchaser or user when no sales tax is paid at the time of the sale.

Industrial Production Exemption

The industrial production exemption, M.S. 297A.25, Subd. 9, allows industry to exempt items from sales and use tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the chemical classification. Note: A fact sheet, *Taconite and Iron Mining, number 147*, is available on the department's website.

The 1971 Minnesota legislature approved the production materials exemption (M.S. 297A.25, Subd. 15) exclusively for the taconite mining industry. This statute allows an exemption from sales tax on grinding rods, grinding balls, and mill liners that are substantially consumed in the production of taconite. During the process, this material is added to, and becomes a part of, the product processed. For the purpose of the exemption, the term *mill* includes all facilities used to reduce and process ore.

In 1974, the Minnesota legislature amended the industrial production exemption (M.S. 297A.25, Subd. 9) to cover accessory tools. The accessory tool exemption is available to all manufacturing-type businesses. The legislature, in defining what qualifies as an accessory tool, set three standards that must be met: 1) an item must be separate and detachable; 2) it must have a direct effect on the product; and 3) it must have a useful life of fewer than twelve months. In mining, shovel dipper teeth, shovel bucket lip and lower wing shrouds, cat and grader blade cutting edges, drill bits and reamers qualify for this exemption.

The 1994 legislature expanded the law to exempt materials, including chemicals, fuels and electricity purchased by persons engaged in industrial production to treat production process waste.

Beginning July 1, 2001, all sales and use tax information must be filed electronically over the Internet (www.taxes.state.mn.us) or by phone (1-800-570-3329).

Capital Equipment Refund

If you buy or lease qualifying capital equipment or replacement capital equipment for use in Minnesota, you are eligible for a refund of all, or a part of, the Minnesota and any local sales or use tax paid.

Capital equipment means machinery and equipment used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining a product to be sold ultimately at retail. Both purchasers and lessees of capital equipment are eligible for a full refund of the sales or use tax.

Replacement capital equipment means machinery and equipment to replace qualifying capital equipment; repair and replacement parts, accessories and upgrades to qualifying equipment; foundations for qualifying equipment; and special purpose buildings. Beginning July 1, 1998, purchases or leases of replacement capital equipment are eligible for a **full** refund of the sales and use tax paid.

You must pay sales tax when you buy or lease capital or replacement capital equipment. If the seller does not charge you sales tax, you must report and pay use tax on the equipment. To get a refund of sales or use tax paid, you must file a capital equipment refund claim, Form ST-11. You may file no more than two capital equipment refund claims in a calendar year.

A claim must be filed within three and one-half years from the due date of the return, or within one year of the date of an order assessing liability (if the liability has been paid in full), whichever is longer.

Capital equipment is not the same as capitalized assets. Items capitalized for accounting purposes do not automatically qualify as capital equipment. Items that you expense for accounting purposes, such as leased equipment, may be considered capital equipment for refund purposes.

Capital equipment does not include:

- Agriculture, aquaculture, and logging equipment; or
- Motor vehicles taxed under Minnesota Statutes, section 297B (vehicles for road use).

Electronic Funds Transfer

Companies with a sales and use tax liability of $120,000 per fiscal year (July 1 through June 30) are required to remit the tax using electronic funds transfer (EFT). The due date for remitting the tax is the 14th of the month following the month of the sale. The return must be filed by the 25th of the month.

If actual amounts are not available by the 14th of the month, an estimate of the net amount to be paid may be remitted by using one of the following options:

- 100 percent of the previous month's sales and use tax;
- 100 percent of the tax paid in the same month of the previous year; or
- 95 percent of the actual amount.

The balance is due on the 25 of the month. You must also make this payment electronically. If there is an overpayment of tax, the Department of Revenue will issue a refund. Do not take credit on any other return for an overpayment.

Voluntary EFT payers are companies not required to file electronically but elect to do so. The returns and payments are due on the 20 of the month following the filing month. If you are required to pay any business tax to the Department of Revenue by EFT, you must pay all business taxes by EFT.

Effective for returns due after 1994, the June estimated payment will only be required from those who are required to pay by EFT. Filers who are not required to pay electronically are no longer required to file an estimated June return. All filers required to pay electronically must make an estimated payment for their June tax liabilities. The estimate must be 75 percent of the June liability and must be made two business days before June 30.

Figure 34

Use Tax Paid

Year	Use tax	Refund claims*	Net use tax
1990	$13,127,042	$104,173	$13,022,869
1991	11,860,378	475,098	11,385,280
1992	11,702,398	447,370	11,255,028
1993	11,991,300	328,139	11,663,161
1994	14,200,022	1,063,242	13,136,780
1995	15,929,989	1,435,835	14,494,154
1996	16,821,715	4,841,228	11,980,487
1997	18,535,506	6,615,055	11,920,451
1998	17,361,851	9,175,324	8,186,527
1999	16,806,784	12,394,610	4,412,174
2000	18,829,904	12,698,510	6,131,394
2001	14,123,142	15,775,844	(1,652,702)
2002	13,694,774	12,850,487	844,287
2003	12,435,693	11,238,116	1,197,577
2004	17,139,316	8,624,502	8,514,814

* These are capital equipment refund claims allowed, not including interest, for new or expanding businesses and for repair and replacement parts.

Capital Equipment Exemptions and Refunds

Title	Company responsibility	Refund procedure
Industrial Production Exemption M.S. 297A.25, Subd. 9	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Taconite Production Material Exemption* M.S. 297A.25, Subd. 15	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Capital Equipment Exemption (refund) M.S. 297A.01, Subd. 16 (definition) M.S. 297A.25, Subd. 42	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Replacement Capital Equipment (refund) (Taconite mining company only)* M.S. 297A.01, Subd. 16F	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Replacement Equipment (refund) M.S. 297A.01, Subd. 20 (definition) M.S. 297A.02, Subd. 5 (imposition of tax)	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Minerals Production Facilities Exemption M.S. 297A.2573 (refund)	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11

What is the Mineral Production Facilities Exemption?

The Mineral Production Facilities exemption was enacted by the 1994 legislature and says that the purchase of materials to construct *any* of the following types of facilities is exempt. This includes materials to construct buildings to house the equipment even though the buildings, when completed, become real property.

1. A value-added iron products plant that may be either a new plant or facilities incorporated into an existing facility that produces iron upgraded to a minimum of 75 percent iron content or any iron alloy with a minimum metallic content of 90 percent.
2. A facility used for the manufacture of fluxed taconite pellets.
3. A new capital project that has a total cost of more than $40,000,000 that is directly related to production, cost or quality at an existing taconite facility that does not qualify under 1 or 2, above.
4. A new mine or mineral processing plant for any mineral subject to the net proceeds tax.

* The sections above apply only to taconite mines and plants, not to any other mine or plant.

Aggregate Material
Sales and Use Tax

(Minnesota Statute 297A)

Aggregate material is nonmetallic natural mineral aggregate including, but not limited to, sand; silica sand; gravel; stone; boulders; and crushed and uncrushed rock, including landscape rock, rip-rap, crushed granite and crushed limestone.

Industrial Production Exemption

Aggregate producers are allowed to make purchases exempt from sales or use tax if the purchases are used or consumed in the production of personal property intended to be sold ultimately at retail. This includes chemicals, fuels, petroleum products, lubricants, gas and electricity.

Capital Equipment Refund

New or used original or replacement capital equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment qualify for the capital equipment refund of the 6.5 percent sales tax paid.

Aggregate Materials Sales

Sales to Contractors

Taxable: Generally, purchases of aggregate by a contractor are taxable since it will be used as an improvement to real property. This requires that the contractor deliver and spread the aggregate in such a way that no further leveling is required by the purchaser. This includes situations where it is leveled while being unloaded from the back of a moving truck without the use of any other equipment.

Nontaxable: The purchase of aggregate by a contractor from a pit owner for resale is exempt from sales tax if the contractor provides the pit owner with a completed exemption certificate, Form ST3. A retail sale by a contractor involves only the dumping of aggregate; no leveling, spreading, or further action by the contractor is provided. The contractor must charge sales tax to the end user of the aggregate. **Effective Jan. 1, 2002, all delivery charges are subject to sales tax.**

Sales to Townships

Purchases by townships of aggregate,machinery, equipment and accessories **used exclusively for road and bridge maintenance** are exempt from sales tax. Purchases of aggregate, machinery, equipment and accessories used for parking lots, playgrounds, trails, etc., are subject to sales tax. Also, all culverts, bridge decking or railing, structural steel and any road surfaces, such as asphalt, concrete or chloride are subject to sales tax.

Sales to Cities, Counties or Special Taxing Districts

All sales of aggregate to cities, counties or special taxing districts are subject to sales tax when they are used by these entities, unless they will be resold in the same form. No exemption is allowed for purchases used for road and bridge maintenance.

Aggregate Pit Owned by a Government Unit

If a pit is owned or leased by a government unit, aggregate removed for its own use **is not subject to sales tax**. However, all aggregate sold to others is subject to sales tax, unless the purchaser provides an exemption certificate.

Aggregate Crushing and Screening

Screening and crushing of aggregate is fabrication labor subject to sales tax. Fabrication labor is the making or creating of a new product or altering an existing product into a new or changed product, even when the customer provides the materials to be screened or crushed.

Sales Tax on Purchases: Ready-Mix Concrete Producers

Nontaxable Purchases: The purchase of aggregate by a ready-mix concrete producer to be used in making the product is exempt from sales tax if the producer provides a completed exemption certificate (ST3) to the aggregate seller. Ready-mix concrete producers are not classified as contractors.

Nontaxable Purchases: If a ready-mix producer makes retail sales of aggregate, the aggregate may be purchased exempt from sales tax if they provide a completed exemption certificate (ST3) to the aggregate seller.

Sales Tax on Purchases: Bituminous Producers

Taxable Purchases: All purchases of aggregate are taxable if the bituminous producer is primarily a contractor (makes and installs the product).*

Exempt Purchases: If a bituminous producer is primarily a retailer and makes retail sales of bituminous product (does not include installation), the purchase of the aggregate is exempt from sales tax provided the retailer provides a completed resale exemption certificate (ST3) to the aggregate seller.

Note: If the bituminous producer is a contractor-retailer, it must decide which function constitutes at least 50 percent of the business. If the producer is primarily a contractor, it must pay sales tax on all purchases. If the producer is primarily a retailer, it may purchase aggregate exempt from sales tax if a completed exemption certificate (ST3) is provided to the aggregate seller.

* Purchases by a contractor while acting as a purchasing agent for exempt entities may be purchased without paying sales tax only if the contractor has a written agreement with the exempt entity. This written agreement must contain certain criteria. For more information regarding purchasing agreement criteria, contact the Department of Revenue.

Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations

(Minnesota Statute 272.01)

Lands and structures actively used for taconite production are exempt from the ad valorem tax and are subject to the production tax *in lieu* of property tax. Actively used lands include the plant site, mining pit, stockpiles, tailings pond and water reservoirs. Also included are lands stripped and ready for mining, but not lands merely cleared of trees. Exemptions are granted on a parcel basis to the nearest five acres. It is important to note that this exemption applies only to the ad valorem tax on the land and buildings and **not to the unmined taconite tax** described on the following page. Lands adjacent to these facilities, commonly referred to as auxiliary mining lands, are subject to assessment of ad valorem tax administered by the county.

The county assessor is responsible for estimating the market value of auxiliary mining lands and classifying them into one of several property classifications established by Minnesota law. The two most common property classifications used on auxiliary mining lands are industrial and timber. In general, lands in close proximity to active taconite operations are assigned the industrial classification while those further away are classified as timber. The classification of property is covered in M.S. 273.13.

Each property classification has a legislatively set percentage called the class rate that is multiplied by the assessor's estimated market value (EMV) to calculate tax capacity. For payable 2005 taxes, the class rate for timber is 1.00 percent of the estimated market value. For the industrial classification, there are two class rates: 1.50 percent for the first $150,000 of the EMV and 2.0 percent for the value over $150,000.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. In St. Louis County for taxes payable in 2005, they range from a low of approximately 90 percent to a high of approximately 254 percent. In addition, the market value times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district. For industrial class property, the state general tax rate of 54.1 percent applies in addition to the local tax rate.

The following schedule provides for adjustments in both the valuations and classifications of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It outlines valuation adjustments to be made on excess lands where they are located as market conditions and/or Minnesota statutes dictate (see below). This schedule was updated based on market conditions for the 2005 assessment.

St. Louis County Mining Land Assessment Schedule

1. Iron formation land	Value ($/acre)	Classification
A. Land within ¼ mile of active pit	$1000	Industrial
B. Excess land (more than ¼ mile from mining activity or outside 15-year pit limit).		
1. Undisturbed	same as other private land	Timber or current use
2. Disturbed		
a. Stockpiles	75% of other private land	Timber or current use
b. Abandoned Pits	50% of other private land	Timber or current use
2. Off-formation land		
A. Land within ¼ mile of mining activity	$700	Industrial
B. Excess Land		
1. Undistrurbed	Same as other private land	Timber or current use
2. Tailings Ponds		
a. Stockpiles	75% of other private land	Timber or current use
b. Tailings Ponds	30% of other private land	Timber or current use

Ad Valorem Tax on Unmined Taconite

(Minnesota Statute 298.26)

A tax not exceeding $15 per acre may be assessed on the taconite or iron sulfides in any 40-acre tract from which the production of iron ore concentrate is less than 1,000 tons.

The heading in the statute is somewhat misleading since it refers to a *Tax on Unmined Iron Ore or Iron Sulfides*. The tax clearly applies to unmined taconite and has been administered in that manner. The term "iron ore" does not refer to high-grade natural ore in this instance.

The tax, as presently administered, applies to all iron formation lands on the Mesabi Range. The statutory exemption administered by the county assessor provides that in any year in which at least 1,000 tons of iron ore concentrates are produced from a 40-acre tract or government lot, the tract or lot are exempt from the unmined taconite tax. The county assessors have also exempted actual platted townsites that are occupied.

The iron formation lands on the Mesabi Range are divided into two categories by the Minnesota Department of Revenue. This is done through the evaluation of exploration drill hole data submitted by the mining companies.

The categories are:

1) *Lands that are underlain by magnetic taconite of sufficient quantity and grade to be currently economic:* They are considered to be *economic* taconite and are given a market value of $500 per acre.

2) *Lands either not believed or not known to be underlain by magnetic taconite of current economic quantity, quality and grade:* They are considered to be *un-economic* taconite and are given a market value of $25 per acre.

To be classified as economic taconite, category 1, the taconite must pass the following criteria:

— contain more than 16 percent magnetic iron with the Davis tube test;

— contain less than 10 percent concentrate silica (SiO_2) with the Davis tube test;

— have a 15- to 25-foot minimum mining thickness; and

— have a stripping ratio of less than four-to-one (waste/concentrate), calculated as follows:

A) Surface (ft.) x 1.5= Equiv. Ft. Surface

B) Rock (ft.) x 2.25 = Equiv. Ft. Waste

C) $\frac{\text{Ore (ft.) x 2.5}}{3}$ = Equiv. Ft. Concentrate

Stripping Ratio $= \frac{A + B}{C}$

If the material fails any of the above criteria, then it is considered to be *uneconomic* taconite and classified as category 2. Some lands may also be considered as uneconomic due to environmental restrictions.

For taxes payable in 2005, the tax is calculated by multiplying the market value for the parcel of land by the 2.00 percent class rate to obtain the tax capacity. The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to to class 5 unmined taconite. This is then multiplied by the local tax rate plus the state general property tax rate of 51.121 percent for taxes payable in 2005. In addition, if a referendum is present, the referendum rate is multiplied by the full market value (not tax capacity). *Note: call your county auditor for more information.*

Figure 35

Unmined Taconite Tax Paid

(Year payable)

County	1998	1999	2000	2001	2002	2003	2004	2005
Itasca	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
St. Louis	444,630	402,543	401,764	397,428	316,140	317,033	300,173	273,601
Totals	**$444,630**	**$402,543**	**$401,764**	**$397,428**	**$316,140**	**$317,033**	**$300,173**	**$273,601**

Ad Valorem Tax on Unmined Natural Iron Ore

(Minnesota Statutes 272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

Since 1909, Minnesota's natural iron ore reserves have been estimated and assessed by the state for ad valorem tax purposes. The actual ad valorem tax levy is set by the county, the school district and the local township or municipality. The county auditor collects the tax levy.

A Minnesota Supreme Court decision in 1936 established the present worth of future profits method for valuing the iron ore reserves. This is accomplished through the use of a complex formula known as the Hoskold Formula. The formula takes into account ore prices and all the various cost factors in determining the value of the unmined ore.

Each year, the Minnesota Department of Revenue uses a five-year average for allowable costs taken from the occupation tax report. A five-year average of the Lake Erie iron ore market value is also used. These averages are used to help reduce fluctuation of value due to sudden cost/price changes.

The following expenses are allowed as deductions from the Lake Erie market value on the computation of present worth, which is known as the Hoskold Formula:

1a. Mining, normal costs
1b. Mining, special costs
2. Beneficiation
3. Miscellaneous (property tax, medical ins., etc.
4. Development (future)
5. Plant and equipment (future)
   Plant
6. Freight and marine insurance
7. Marketing expense
8. Social Security tax*
9. Ad valorem tax (by formula)
10. Occupation tax
11. Federal income tax
12. Interest on development and working capital

* Since 1987, Social Security tax has been included under miscellaneous.

These twelve allowable expense items are deducted from the Lake Erie market value to give the estimated future income (per ton). Note that although royalty is allowable as an occupation tax deduction, it is not allowable on Minnesota's ad valorem tax.

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. The department presently allows a 12 percent risk rate and 6 percent safe rate that yields the .33971 Hoskold factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves. The resulting value is considered the market value by the Minnesota Department of Revenue.

The term "class rate" was introduced for taxes payable in 1990. For 2002 and thereafter, this rate is reduced to 2.0 percent.

The tax capacity is the product of the class rate and the market value. The product of the market value and class rate must then be multiplied by the local tax rate plus the state general property tax rate to determine the tax. In addition, the market value times the referendum rate must be added if there is a referendum in the taxing district.

Local tax rates are a function of county, local government, and school district spending. For example, for taxes payable in 2005, they ranged from a low of approximately 90 percent to a high of approximately 2.38 percent not including the state general property tax rate of 51.121 percent in St. Louis County. The following class rates were in effect through 2005:

CLASS RATES

Payable 1995	4.60%
Payable 1996	4.60%
Payable 1997	4.60%
Payable 1998	4.00%
Payable 1999	3.50%
Payable 2000	3.40%
Payable 2001	3.40%
Payable 2002	2.00%
Payable 2003	2.00%
Payable 2004	2.00%
Payable 2005	2.00%
Payable 2006	2.00%

The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to unmined iron ore that are class 5 properties.

A statewide general property tax levy was established beginning with taxes payable in 2002. It applies to most types of property with the exception of agricultural and homestead properties. For taxes payable in 2002, this increased the property tax on unmined iron ore by $39,182 in total. The rate was 51.121 percent for taxes payable in 2005.

The Minnesota Department of Revenue has tried to maintain all ores on the tax rolls, including the uneconomic, underground and unavailable classifications. A schedule of minimum rates was established in 1963 and revised in 1974, 1986, 1988, 1992 and 1999. The market values for iron ores that do not show a value with the Hoskold Formula are determined from the schedule of minimum rates. The table on the following page lists the current schedule of minimum rates. Most of the iron ore value remaining today was determined using the schedule of minimum rates.

Figure 36

Minimum Rates

Ore classification	Market value/ton (cents)	
	Itasca and St. Louis Counties	Crow Wing County
Wash Ore Concentrate (OPC)	12.0	6.0
Heavy Media Concentrate (HMC)	9.0	4.5
Low Grade (OPPRC)	3.0	1.5
Underground uneconomic (Stripping ratio greater than 5 to 1)		
Underground Concentrate > 60% Fe (UGC)	2.4	1.2
Underground Concentrate < 60% Fe (UGC)	1.8	0.9
Underground Heavy Media (UGHM)	1.5	0.75
Low grade (UGPRC)	0.9	0.45
Low grade (UGR)	0.9	0.45

Open pit ores with too high of a cost to show a value with the Hoskold Formula are assigned minimum values from the open pit classification. Underground and uneconomic ores with stripping ratios exceeding five-to-one are assigned minimum values from underground uneconomic classification.

Beginning with the 1999 assessment, the minimum rates for determining market values in Crow Wing County were reduced by 50 percent. This simply recognizes that the potential for mining iron ore is substantially less in Crow Wing County than on the Mesabi Range in St. Louis or Itasca counties.

Figure 37

Iron Ore Ad Valorem Tax Payable

Year assessed	Market value	Payable	Year estimated tax payable			Total
			Crow Wing	Itasca	St. Louis	
1990	$4,190,200	1991	$17,712	$41,199	$584,779	$643,690
1991	3,401,700	1992	18,966	45,019	429,850	493,835
1992	5,785,900	1993	19,600	46,000	276,300	341,900
1993	5,476,900	1994	20,900	47,400	254,600	322,900
1994	5,071,600	1995	14,000	34,800	262,400	311,200
1995	4,823,000	1996	12,100	32,600	237,600	282,300
1996	4,448,800	1997	10,900	34,900	226,200	272,000
1997	4,175,400	1998	10,400	23,500	244,900	278,800
1998	4,020,900	1999	8,200	18,900	188,100	215,200
1999	3,781,800	2000	4,200	20,200	181,800	206,200
2000	3,765,800	2001	3,900	18,600	159,400	181,900
2001	3,637,400	2002	3,500	17,600	147,200	168,300
2002	2,720,400	2003	3,500	16,900	107,200	127,600
2003	2,734,200	2004	3,300	15,400	101,600	120,300
2004	2,529,200	2005	2,700	14,100	87,300	104,100
2005	2,355,700	2006				

A notice of the market value of unmined ore shall be sent to each person subject to the tax and to each taxing district affected on or before May 1st (M.S. 273.1104).

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore must be held on the first secular day following May 20. This hearing provides an opportunity for mining company and taxing district representatives to formally protest any of the ore estimates or valuation procedures they believe to be incorrect.

In addition, current conditions and future trends in the iron ore industry are discussed. Iron ore ad valorem taxes are expected to continue their long decline as remaining economic deposits are mined or allowed to go tax forfeit. Reserves in old flooded pits converted to recreational use are classified as underground, low-grade recreational (UGR).

Ad Valorem Tax on Taconite Railroads

(Minnesota Statute 270.80 - 270.88)

Beginning with the Jan. 2, 1989 assessment, taconite railroads have been included in the definitions of *common carrier* railroads and were assessed and taxed on an ad valorem basis according to Minnesota law. LTV and Northshore were the only railroads classified as taconite railroads. Since the 2003 assessment Northshore Mining is the only operating railroad.

The Minnesota Department of Revenue developed rules governing the valuation of railroad operating property. The rules have been in effect since 1979 when common carrier railroads went off the gross earnings tax. Each railroad is required to file an annual report containing the necessary information.

The valuation process utilizes the unit value concept of appraisal. For taconite railroads, this involves calculating a weighted cost indicator of value allowing for depreciation and obsolescence. Personal property is then deducted from the net cost indicator to yield a Minnesota taxable value.

This value is then *apportioned* to the various taxing districts where the taconite railroad owns property. The amount of value each taxing district receives is based on an apportionment formula involving three factors: land, miles of track and the cost of buildings over $10,000.

After the market value is apportioned to each taxing district, the value is equalized with the other commercial and industrial property on a county-wide basis using an estimated median commercial and industrial sales ratio. A commercial and industrial ratio is developed for each county and applied to that county's taconite railroad market values.

Figure 38

Taconite Railroad Ad Valorem Tax Assessed

Year payable	Assessed	St. Louis County	Lake County	Cook County	Total tax
1990	1989	$105,167	$156,675	$5,037	$266,879
1991	1990	112,800	145,573	5,319	263,692
1992	1991	53,409	80,720	5,064	139,193
1993	1992	38,454	99,919	4,706	143,079
1994	1993	48,655	87,248	4,938	140,841
1995	1994	78,281	140,300	14,454	233,034
1996	1995	64,516	116,143	14,456	195,115
1997	1996	49,283	61,107	13,292	123,682
1998	1997	46,250	66,114	10,330	122,694
1999	1998	43,891	68,874	8,648	121,413
2000	1999	42,340	65,444	8,542	116,326
2001	2000	35,467	64,295	8,500	108,262
2002	2001	27,323	37,336	7,202	71,861
2003	2002	6,746	17,890	0	24,636
2004	2003	4,519	15,964	0	20,483
2005	2004	3,896	13,312	0	17,208

Ad Valorem Tax on Severed Mineral Interest

(Minnesota Statutes 272.039, 272.04, 273.165)

Definition

Severed mineral interests are those separately owned from the title to surface interests in real estate. Severed mineral interests are taxed under Minnesota law at 40 cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $3.20 per tract. No tax is due on mineral interests taxed under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

Ownership of a specific mineral or group of minerals, such as energy minerals or precious metals rather than an actual *fractional interest* of all the minerals, does not constitute a fractional interest. Thus, if one individual reserved all minerals except gas, oil and hydrocarbons, and a second entity reserved the hydrocarbons, each owner would be subject to the full 40 cents per acre tax.

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed in this manner: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate of each taxing district bears to the total surface tax rate in the area; and 20 percent to the Indian Business Loan Account in the state treasury for business loans made to Indians by the Department of Employment and Economic Development.

The Registration and taxation of severed mineral interests is a county function. Severed mineral interests are registered with the county recorder in the county where the interest is located. The county auditor sends a tax statement similar to any other real estate interest. The tax is normally collected in two increments payable in May and October. If the tax is less than $50, the taxpayer is required to pay in full with the May payment.

Nonpayment Penalty: Forfeiture

The eventual penalty for not paying the tax is forfeiture. Policies vary somewhat among counties. Specific questions about the tax, interest or penalties should be directed to the county recorder and auditor in the county where the minerals are located.

Tax Imposed

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners to file a document with the county recorder where the interests were located describing the mineral interest and asserting an ownership claim to the minerals. The purpose of this requirement was to *identify and clarify the obscure and divided ownership conditions of severed mineral interests in this state (*M.S. 93.52). Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state (M.S. 93.55).

History of Litigation

In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirements and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc. U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The U.S. Supreme Court refused to hear an appeal requested by the plaintiffs. Shortly after this decision, the legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete and giving title to the state.

Figure 39

Tax Collection and Distribution

Period ending	80% retained by local government	20% payment to Indian Business Loan Account	Total collections of affected counties
Dec. 31, 1996	$571,436	$142,859	$714,295
Dec. 31, 1997	517,268	129,317	646,585
Dec. 31, 1998	470,472	117,618	588,090
Dec. 31, 1999	606,560	151,640	758,200
Dec. 31, 2000	468,068	117,017	585,085
Dec. 31, 2001	201,952	50,488	252,440
Dec. 31, 2002	707,716	176,929	884,645
Dec. 31, 2003	461,456	115,364	576,820
Dec. 31, 2004	342,468	85,617	428,085

In 1988, the legislature amended the law to allow the commissioner of the Minnesota Department of Natural Resources to lease unregistered severed mineral interests before entry of the court order determining the forfeiture to be complete. However, mining may not commence under such a lease until the court determines that the forfeiture is complete.

In a 1983 case, the Minnesota Supreme Court ruled that severed mineral interests owned by the Federal Land Bank of St. Paul were exempt from the state severed mineral tax under a federal law exempting Land Bank real estate from local property taxes. The U.S. Supreme Court denied a petition by the State of Minnesota to review the case.

Indian Business Loan Account

The 20 percent portion of the severed mineral interest tax that is allocated to the Indian Loan Program is reported by the county auditors on the *Severed Mineral Interest Return*. Normally, the form is submitted twice each year to correspond with payment of property taxes.

The money deposited in the severed mineral interest account is distributed to the Indian Loan Program at the end of each month.

A copy of the *Severed Mineral Interest Return* form is below:

Figure 40

MINNESOTA · REVENUE

SEVERED MINERAL INTEREST RETURN

County: ___________________ Minnesota tax ID: ___________________

Contact person: ___________________ Daytime phone: _____________________

Year: _________

Period (Circle One): January to June July to December

You must file this return each quarter to report Minnesota's share of the fee you collect. **Returns are due on or before the 20 day of the following month.** You must pay the amount you owe by check. If you have any questions, call 651-556-4721 or Minnesota Relay (TTY) 711.

Severed Mineral Interest

- Total Severed Mineral Interest collected 1.___________________
- Multiply line 1 by 80% (.80) 2.___________________
- Subtract line 2 from line 1. **This is the state's share of the tax** 3. ___________________

Mail to: Minnesota Revenue, Mail Station 3331, St. Paul, MN 55146-3331.
Send your payment with this return.

Department of Revenue

The processing and payment of the severed mineral interest tax is handled by the Tax Operations Division of the Minnesota Department of Revenue. Phone: (651) 556–4748.

Loan Program

The Indian Business Loan Program is administered by the Department of Employment and Economic Development, 500 Metro Square, 121 7th Place East, St. Paul, MN 55101. Phone: (651) 297–1170.

Taxes on Other Mining and /or Exploration

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore. *Figure 41* identifies each tax by statute number and references each of them in this publication.

Base Metals	*Precious Metals*	*Energy Minerals*
Copper, Nickel, Lead, Zinc, Titanium	Gold, Silver, Platinum Group	Coal, Oil, Gas, Uranium

Figure 41

Index of Other Mining/Exploration Taxes

Tax	Current laws	Mining Tax Guide Page No.
Ad valorem tax (smelter and plant facilities only)	M.S. 272 and 273	Page 50
Net Proceeds tax	M.S. 298.015-298.018 — 2%	Page 51
Occupation tax	M.S. 298.01 — 9.8%	Pages 27 and 52
Sales and Use tax	M.S. 297A — 6.5%	Pages 39 and 52
Severed Mineral Interest	M.S. 272.039, 272.04, 273.165	Page 51
Withholding tax on royalty payments	M.S. 290.923 — 6.25%	Pages 36 and 52

Ad Valorem Tax (M.S. 272-273)

The 1991 legislature amended the definition of real property in M.S. 272.03, Subd. 1, (c)(i), to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under Chapter 298. The tax on ore reserves, other than taconite and iron ore, was specifically removed in 1987, M.S. 273.12, 1987, c. 268, art. 957. The exemption was further clarified by 2005 legislature in M.S. 272.02, Subd. 73, Par. (b). Companies mining any of the minerals listed are subject to property tax like other businesses, such as taxation of land and building values.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not subject to ad valorem tax*. In 2005 the St. Louis County assessor indicated that new large buildings were typically valued at $26 to $32 per square foot for ad valorem tax purposes. Storage buildings could be assessed as low as $10 or $14 per square foot. Tax rates are set by the county, local communities and school districts according to state law, and the tax is administered and collected by the county. There is also a statewide property tax levy set by the legislature which applies to commercial-industrial and some other types of property.

Minnesota's property taxes are computed as follows:
For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate to obtain gross tax capacity. *See class rate chart*. The first $150,000 of value is 1.5 percent while a 2 percent rate applies over $150,000. To determine the tax, the product of the market value and class rate must be multiplied by the local tax rate plus the 51.121 percent state general property tax rate for taxes payable in 2005. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates in 2004 varied from a low of 90 percent to a high of approximately 238 percent. If a referendum tax is passed, the referendum rate times the full market value must be added.

A list of recent rates follows:

CLASS RATES

	Over $150,000	First $150,000
Payable 1998	4.00%	2.70%
Payable 2000	3.40%	2.40%
Payable 2002	2.00%	1.50%
Payable 2003	2.00%	1.50%
Payable 2004	2.00%	1.50%
Payable 2005	2.00%	1.50%

Special policies issued by the Minnesota Department of Natural Resources (DNR) apply to metallic mineral leases (Minn. Rules, parts 6125.0100 - .0700). The Commissioner of Revenue has advised all county auditors and assessors that leases issued by the DNR constitute a taxable interest in real estate (M.S. 272.01, Subd. 2[a] and [b]). The taxes are to be assessed and collected as personal property taxes and do not become a lien against the real property. The commissioner further advised that when activities under the leases during the initial years are limited to **exploration,** the tax should not exceed the severed minerals interest tax. For all taxes levied in 1994 and thereafter, the tax should not exceed 40 cents per acre while the lease activities constitute exploration. Specific leases may vary, but the tax is to be determined based on the number of acres made available to the lessee and the fractional interest, if any, that is leased.

Contact the DNR, Minerals Division, to determine the status of activities under any state metallic minerals lease.

Net Proceeds Tax (M.S. 298.015-298.018)

A tax equal to 2 percent of the net proceeds from mining in Minnesota applies to all mineral and energy resources except sand, silica sand, gravel, building stone, all clays, crushed rock, limestone, granite, dimension stone, horticultural peat, soil, iron ore and taconite. Net proceeds are the gross proceeds from mining less allowable deductions. The net proceeds tax has been in effect since 1987 and is due on June 15 of the year succeeding the calendar year of the report.

Additional information is available from the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Gross Proceeds

1) If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale.
2) If the minerals are used by the taxpayer or disposed of in a non-arms-length transaction, such as shipments to a wholly-owned smelter or transactions between affiliated companies, the gross proceeds are determined as follows:
   a) Prices are determined using the average annual price in the *Engineering and Mining Journal*. If there is no average annual price for the mineral, then an arithmetic average of the monthly or weekly prices published in the *Engineering and Mining Journal* is used. For minerals not listed in the *Journal*, another recognized published price as determined by the Commissioner of Revenue will be used; and
   b) the price as determined above is multiplied by the amount of the mineral credited or paid by the smelter. Any special smelter charges included in this price are deducted. The resulting amounts are the gross proceeds for tax calculation.

Net Proceeds

The net proceeds tax was designed to apply to mining and beneficiation, generally to the point of a saleable product. In the case of some hydrometallurgical processes, the saleable product may be a refined metal.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as deductions. The following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

— sales, marketing, and interest expense;

— insurance and tax expense not specifically allowed;

— administrative expense outside Minnesota;

— research expense prior to production;

— reserve for reclamation costs after production ends; and

— royalty expense, depletion allowances, and the cost of mining land.

Allowable Deductions

Certain ordinary and necessary expenses actually paid for mining, production, processing, beneficiation, smelting or refining are allowed as deductions:

— labor, including wages, salaries, fringe benefits, unemployment and Workers' Compensation insurance;

— operating equipment and supplies, including sales and use tax paid. Cost of machinery, equipment, and supplies of a capital nature is deductible as depreciation expense only, per Section 167 of the Internal Revenue Code;

— transportation of minerals, if the expense is included in the sales price;

— administrative expense inside Minnesota;

— exploration, research, or development expense in Minnesota is deductible in the year paid;

— exploration and development expense in Minnesota incurred prior to production must be capitalized and deducted on a straight-line basis over the first five years of production; and

— reclamation costs paid in a year of production.

The carryback or carryforward of deductions is not allowed.

Distribution

The net proceeds tax on minerals and energy resources mined or extracted within the taconite tax relief area must be distributed according to the formula provided by M.S. 298.018. Tax paid on minerals and energy resources mined outside the taconite tax relief area is deposited in the state general fund. A summary of M.S. 298.018 distribution is listed:

(1) 5 percent to the city or town where the minerals are mined or extracted

(2) 10 percent to the Municipal Aid Account

(3) 10 percent to the school district where mining or extraction occurred

(4) 20 percent to the Regular School Fund (13.72 cents)

(5) 20 percent to the county where mining or extraction occurred

(6) 20 percent to Taconite Property Tax Relief, using St. Louis County as fiscal agent

(7) 5 percent to the IRRRB

(8) Five percent to the Douglas J. Johnson Economic Protection Trust Fund

(9) 5 percent to the Taconite Environmental Protection Fund

The proceeds must be distributed on July 15.

Economic Development Incentives

Various grants and loans have been available in the past for mineral development projects, although budget considerations in 2003 and 2004 have reduced the number available. Anyone comtemplating a new operation should consult with the IRR.

Occupation Tax-Corporate Income Tax (M.S. 298.01)

The Minnesota constitution mandates that the state impose an occupation tax on mining. In order to meet this constitutional requirement, the occupation tax is computed in accordance with the Minnesota corporate franchise (income) tax.

The corporate income tax rate is 9.8 percent and contains an alternative minimum tax. For production years 2001 and beyond, the mining income subject to the 9.8 percent corporate franchise tax rate has been reduced from 30 percent to 25 percent. This lowers the effective tax rate from 2.94 percent to 2.45 percent.

Changes to apportionment for tax years after December 31, 2006 would apply to non-ferrous mineral producers also. (See "Changes in Apportionment" under Occupation tax on Taconite and Iron Ore, page 27.)

For more information about the occupation tax, contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Withholding Tax on Royalty (M.S. 290.923)

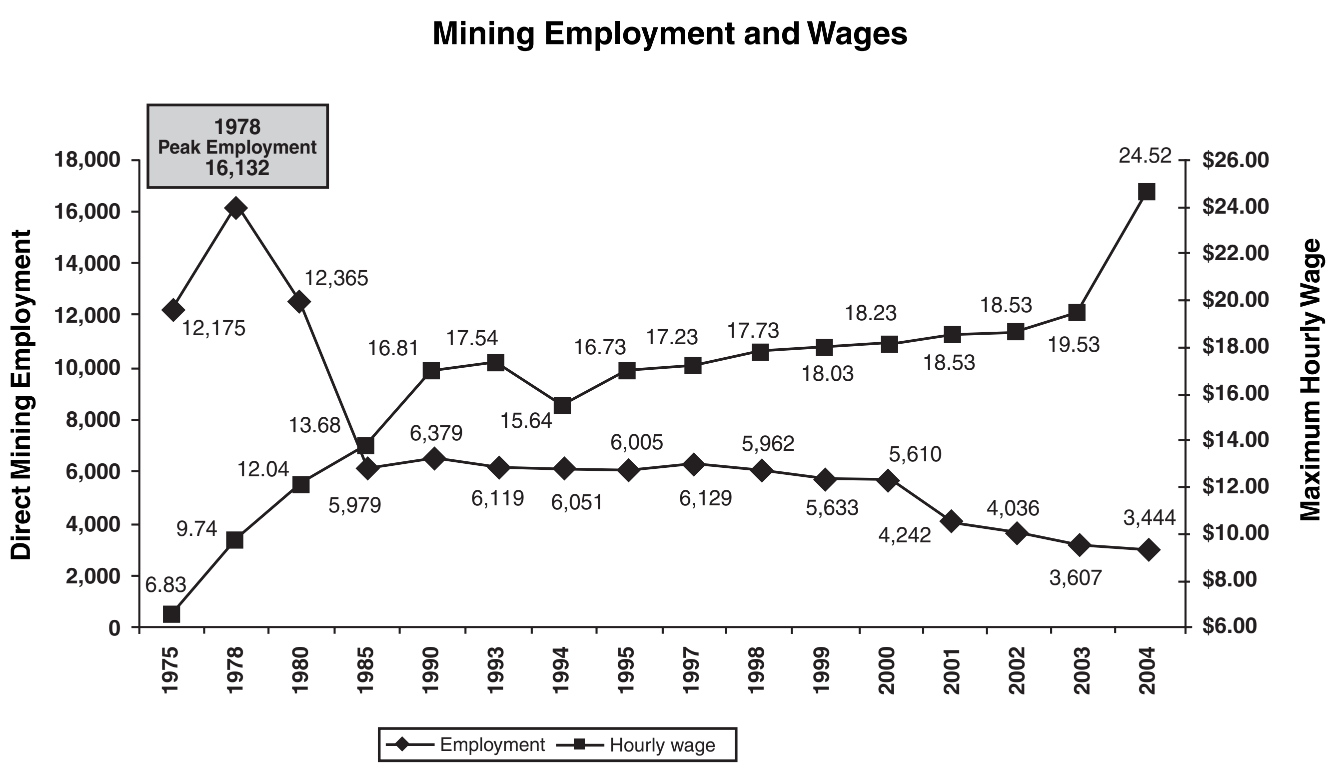
Beginning Jan. 1, 2001, all persons or companies paying royalties are required to withhold Minnesota income tax from royalty payments (6.25 percent) and remit the withholding tax and applicable information to the Minnesota Department of Revenue. See the section on *Income Tax Withholding on Mining and Exploration Royalty*, page 36.

Sales and Use Tax (M.S. 297A)

All firms involved in the mining or processing of minerals are subject to the 6.5 percent sales and use tax on all purchases, except those qualifying for the industrial production exemption. This exemption covers items that are used or consumed in the production of *tangible* personal property to be ultimately sold at retail. Classification of items included in this exemption are chemicals, fuels, petroleum products, lubricants, packing materials, electricity, gas and steam. Explosives, a major expense for mining, are exempt under the chemical classifications. Any new mining and/or processing facility would qualify for a refund of the 6.5 percent sales or use tax paid on capital equipment used to manufacture, fabricate, mine or refine tangible personal property ultimately sold at retail. For more information, see page 44 and contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

The specific exemption of mill liners applies only to the taconite industry. Purchases of liners or lining materials by other mining operations would be subject to sale and use tax unless they qualify for the industrial production exemption.

Figure 42



Information in this chart is included in the annual *St. Louis County Mine Inspector Report*. The maximum hourly wage includes incentive pay through 1993. Starting in 1994, the maximum hourly wage does not include incentive pay. These wage rates are from one of the taconite properties - each company has different wage rates per individual contracts.

Glossary of Terms

Acid pellets — Taconite pellets comprised of iron, oxygen and silica held together by a binder such as bentonite (clay) or peridor (organic).

Agglomeration — The term describing the preparation and heat treatment used to prepare iron ore pellets or other iron ore products for shipment and use in a blast furnace.

Arms-length transaction — A sale of iron ore or pellets representing a true free market transaction when the buyer normally does not have an ownership or other special relationship with the seller.

BOF — Basic oxygen furnace — A steel-making furnace invented in Austria. It began to replace open hearth furnaces in the 1960s. It is currently the standard furnace used by the integrated steel producers in the United States.

Beneficiation — The process of improving the grade by removing impurities through concentrating or other preparation for smelting, such as drying, gravity, flotation or magnetic separation. In taconite operations, this includes the first stage of magnetic separation and converting the concentrate into taconite pellets for use in making steel.

Concentrate — The finely ground iron-bearing particles that remain after separation from silica and other impurities.

DRI — Direct reduced iron — A relatively pure form of iron (usually 90 percent + Fe), which is produced by heating iron ore in a furnace or kiln with a reducing agent such as certain gases or coal.

Dry weight — The weight of iron ore or pellets excluding moisture. For pellets, the dry weight is normally 1 to 2 percent less than the natural weight.

EF, EAF — Electric Arc Furnace — A furnace in which an electric current is passed through the charge. These furnaces are much smaller than the conventional BOFs used by the integrated steel producers.

Economic Protection Fund — Often referred to as the 2002 Fund—A portion of taconite production tax revenues is allocated to this fund with the idea that it would be used after the year 2002 to diversify and stabilize the long-range economy of the Iron Range.

Fe unit — Commonly referred to as an iron unit. An iron unit is a term of measurement denoting one ton containing 1 percent iron. Iron ore and taconite produced in the United States is measured in long tons (see definition). One long ton of taconite containing 65 percent iron also contains 65 *long ton* iron units.

Historically, this measurement was and is used for the selling price quoted in cents per iron unit. One example is a currently published price of acid pellets FOB mine at 37.344 cents per dry gross ton iron unit *or* $.37344 per iron unit.

Fiduciary — An individual or organization holding something in trust for another. Sales tax collection, for example, establishes a fiduciary relationship between the collector and the State of Minnesota.

Flux pellets — Taconite pellets containing limestone or another basic flux additive. Flux pellets eliminate the need to add limestone in the blast furnace, improving productivity and quality. Adding flux reduces the iron content of a pellet. Flux pellets, as used in this guide, mean pellets containing 2 percent or more limestone or other flux.

Partial flux pellets — Flux pellets containing 1.99 percent or less limestone or other flux additive.

Gross National Product Implicit Price Deflator (GNPIPD) — An index maintained by the U.S. Department of Commerce measuring inflation in the overall economy. The taconite production tax rate is adjusted annually based on the change in this index.

Integrated steel producer — Term used to describe older steel companies that produce steel by starting with raw iron ore, reducing it to molten iron in a blast furnace, and producing steel with a BOF, open hearth, or electric furnace.

Lake Erie value — The traditional and quoted price of iron ore from the earliest days of iron ore mining in Minnesota and Michigan. This price per iron unit included delivery, mainly rail and lake transportation, from the mine to a Lake Erie port.

This was the starting point for occupation tax since its 1921 beginning. It was the standard method of pricing domestic iron ore and taconite for occupation tax until the mid-1980s (see Mine Value).

Long ton — The standard unit of weighing for iron ore and taconite in the United States. A long ton is 2,240 pounds.

M.S. 298.225 — A Minnesota statute (law) guaranteeing the taconite production tax aids received by municipalities, counties, schools and the IRR. The aid levels are adjusted according to a sliding scale based on production levels.

Metric ton — Standard unit for weighing iron ore and taconite in most areas of the world. A metric ton equals 1,000 kilograms or 2,204.6 pounds.

Mine value — The value of iron or pellets at the mine. This became the starting point for occupation tax in 1987. This value per iron unit *does not* include any rail or lake transportation beyond the mine.

Mini mill — A small steel mill using an electric furnace that produces steel from scrap iron.

Natural ore — Iron ore that can be fed to a blast furnace with less complicated processing than taconite requires. Natural ore typically contains 50 percent +Fe (iron) in its natural state.

Natural weight — The weight of iron ore or pellets including moisture.

Net proceeds tax — A tax equal to 2 percent of net proceeds from mining. Net proceeds are determined by subtracting certain basic deductions such as labor, equipment, supplies and depreciation from gross proceeds or sales.

Non-equity sales — See Arms-length transaction.

Open hearth — An obsolete steel making furnace still used in some Eastern European and Third World countries. No open hearth furnaces are presently operating in the United States.

Pellet chip — Broken pellets often cannot be sold as pellets and instead are sold at a reduced price for sinter plants and other uses. For occupation tax purposes, chips are defined as *individual shipments or stockpiles containing at least 85 percent of pellet chips smaller than one-fourth inch.* Such chips cannot be shipped or commingled with regular pellets.

For occupation tax purposes, pellet chips are valued at 75 percent of the value of the unbroken pellets.

Percentage depletion — A taxable income *deduction* representing a return on capital investment on a *wasting* asset subject to a gradual reduction in reserves. This deduction applies to income derived from various mining or oil and gas properties. For iron ore, the *deduction* is a flat percentage of 15 percent of income from the iron ore only mined on a specific property. This deduction, however, cannot exceed 50 percent of taxable income from the property computed without the depletion deduction.

Range Association of Municipalities and Schools (RAMS) — An association representing all Iron Range cities, towns and schools receiving any funding from the taconite production tax. An office is maintained in Buhl, Minn.

Royalty — Any amount (money or value of property) received for granting permission to explore, mine, take out or remove ore.

Short ton — Standard for weighing many commodities in the United States. It equals 2,000 pounds.

Steel Mill Products Index (SMPI) — A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the U.S. Department of Labor. It is part of the formula used to determine a mine value for occupation tax purposes each year.

Taconite — Taconite is defined in Minnesota statutes as ferruginous chert or ferruginous slate in the form of compact, siliceous rock in which the iron oxide is so finely disseminated that substantially all of the iron-bearing particles are smaller than 20 mesh.

It is not merchantable in its natural state, and it cannot be made mechantable by simple methods of beneficiation involving only crushing, jigging, washing and drying.

Tailing — Small rock particles containing little or no iron, which are separated during various stages of crushing, grinding, and concentration. Most of the separation is done with magnetic separators. Silica is the main mineral constituent of tailings.

Taxable tons — The *three-year average* of the current and prior two years production. The taconite production tax is based on taxable tons. The weight is on a dry basis without any flux additives.

Mining Industry Tax Calendar

January

– Ad Valorem Tax Reports mailed to companies

– Ad valorem estimates submitted by companies (January - February)

15 Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum

31 Form MW-1, Minnesota Employers Quarterly Withholding Return Due

Sales and use tax

– Electronic funds transfers (all months)

14 Payments must be made

25 Return mailed to St. Paul, MN

February

1 Taconite Production Tax Report due from companies

15 Taconite production tax determinations mailed to companies

– Printout listing 100% production tax payment sent to county auditors

– School bond payment schedule mailed to Itasca, Lake and St. Louis counties

– Notice of taconite production tax aids mailed to recipients

24 Taconite production tax payment (50%) due in county offices by electronic fund transfer

25 Distribution of taconite production tax by counties (collected February 24)

28 Form MW-6, Minnesota Annual Reconciliation of Income Tax Withheld due

28 Royalty/Withholding Tax Paid Report, MT2-RW, due

March

1 Taconite Municipal Aid amounts mailed to cities or to RAMS

April

1 Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for unmined taconite tax

15 Ad valorem tax present worth estimates mailed to companies

30 Form MW-1, Minnesota Employers Quarterly Withholding Return due

May

1 Occupation tax return and payment due

15 First half of property tax on taconite railroad property due to counties

20 Ad valorem tax hearing held on first business day after May 20th

31 Production Cost Summary Tax Report (goldenrod form) due

June

30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors

July

1 Comissioner of Revenue certifies amount of Taconite Municipal Aid to municipality

15 Taconite referendum distribution to school districts of taconite production tax made by the counties

31 Form MW-1, Minnesota Employers Quarterly Withholding Return due

August

1 Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e.: eight-month period or monthly

24 Taconite production tax payment (remaining 50%) due in county offices by electronic fund transfer.

25 Distribution of taconite production tax by counties (collected August 24)

September

15 Taconite Municipal Aid account funds distributed by counties

– *Minnesota Mining Tax Guide* available

October

10 Taconite production tax estimates due from companies

15 Second half of property tax on taconite railroad property due to counties

31 Form MW-1, Minnesota Employers Quarterly Withholding Return due

November

1 Letters sent to six counties and the IRRRA to verify their electronic funds transfer data

December

1 Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors

1 Production tax forms mailed to companies

30 Occupation tax forms mailed to companies

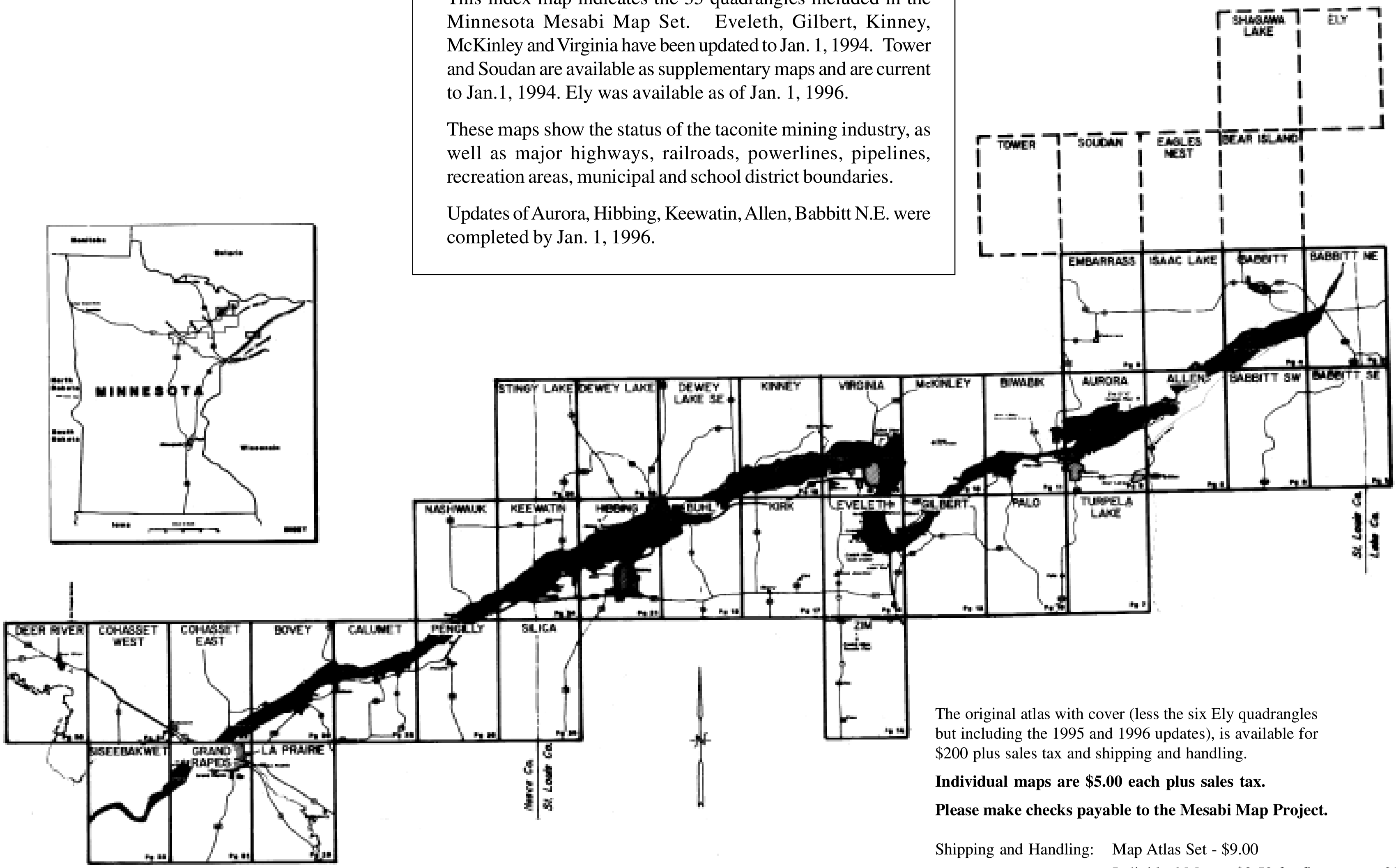
30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies

Index Map - Minnesota Mesabi Map Set

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set. Eveleth, Gilbert, Kinney, McKinley and Virginia have been updated to Jan. 1, 1994. Tower and Soudan are available as supplementary maps and are current to Jan.1, 1994. Ely was available as of Jan. 1, 1996.

These maps show the status of the taconite mining industry, as well as major highways, railroads, powerlines, pipelines, recreation areas, municipal and school district boundaries.

Updates of Aurora, Hibbing, Keewatin, Allen, Babbitt N.E. were completed by Jan. 1, 1996.



The original atlas with cover (less the six Ely quadrangles but including the 1995 and 1996 updates), is available for $200 plus sales tax and shipping and handling.

Individual maps are $5.00 each plus sales tax.

Please make checks payable to the Mesabi Map Project.

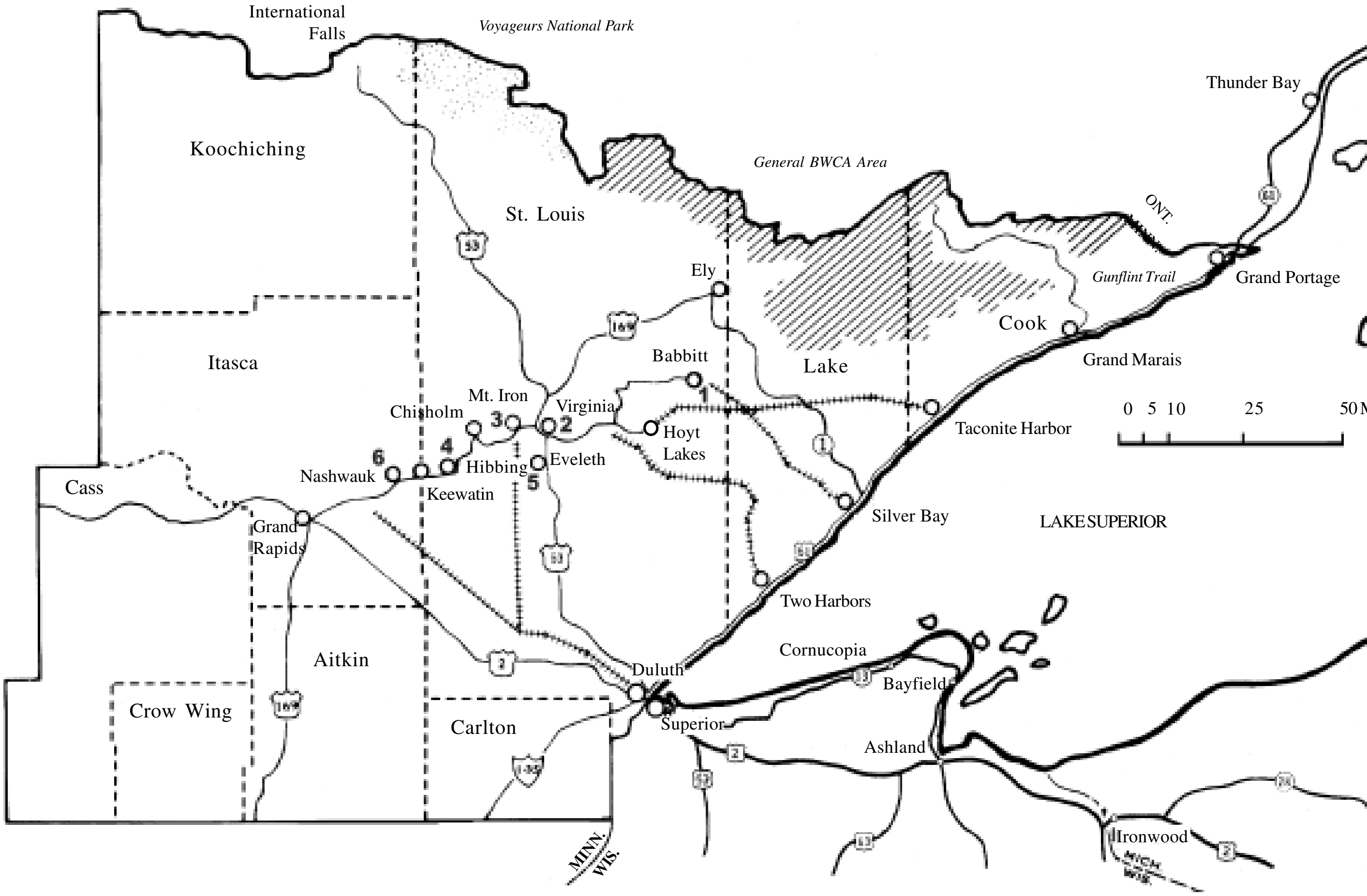
Shipping and Handling: Map Atlas Set - $9.00

Individual Maps - $3.50 for first map + .25 cents for each additional map up to 9 maps (First Class Mail).

Orders can be placed with the Minnesota Department of Revenue, Minerals Tax Office, 612 Pierce Street, Eveleth, MN 55734.
Phone (218) 744-7420, Fax (218) 744-7421.

Map of Northeastern Minnesota

Taconite Company Locations
Ownership and General Information



		Effective Capacity* —(million tons)
1.	**NORTHSHORE MINING COMPANY** Owner: Cliffs Mining Company (100%) Cleveland, Ohio	4.7
2.	**MINORCA PLANT** Owner: Mittal Steel USA (100%) East Chicago, Indiana	2.8
3.	**MINNTAC PLANT** Owner: USX Corporation (100%) Pittsburgh, Pennsylvania	15.0
4.	**HIBBING TACONITE COMPANY** Cliffs Mining Company, Managing Agent Owners: Mittal Steel USA (62.3%) East Chicago, Indiana Cliffs Mining Company (23%) Cleveland, Ohio Steel Company of Canada, Ltd. (Stelco) (14.7%) Hamilton, Ontario	8.5

		Effective Capacity* (million tons)
5.	**United Taconite Company LLC** Cliffs Mining Company, Managing Agent Owners: Cliffs Minnesota Mining Company (70%) Cleveland, Ohio United Mining Co. City of Industry, California Subsidiary of Laiwu Steel Group Laiwu City, Shandong Province, China (30%)	4.3
6.	**KEEWATIN TACONITE COMPANY** Owner: USX Corporation (100%) Pittsburgh, Pennslyvania	5.5
	TOTAL EFFECTIVE CAPACITY:	**40.8**

* Effective capacity is the annual production capacity in natural long tons (including flux) that can be sustained under normal operating conditions.

The ownership percentages shown are the ultimate percentages controlled by parent steel and mining companies. In some instances, various other partnerships and subsidiaries are listed on legal corporate documents.