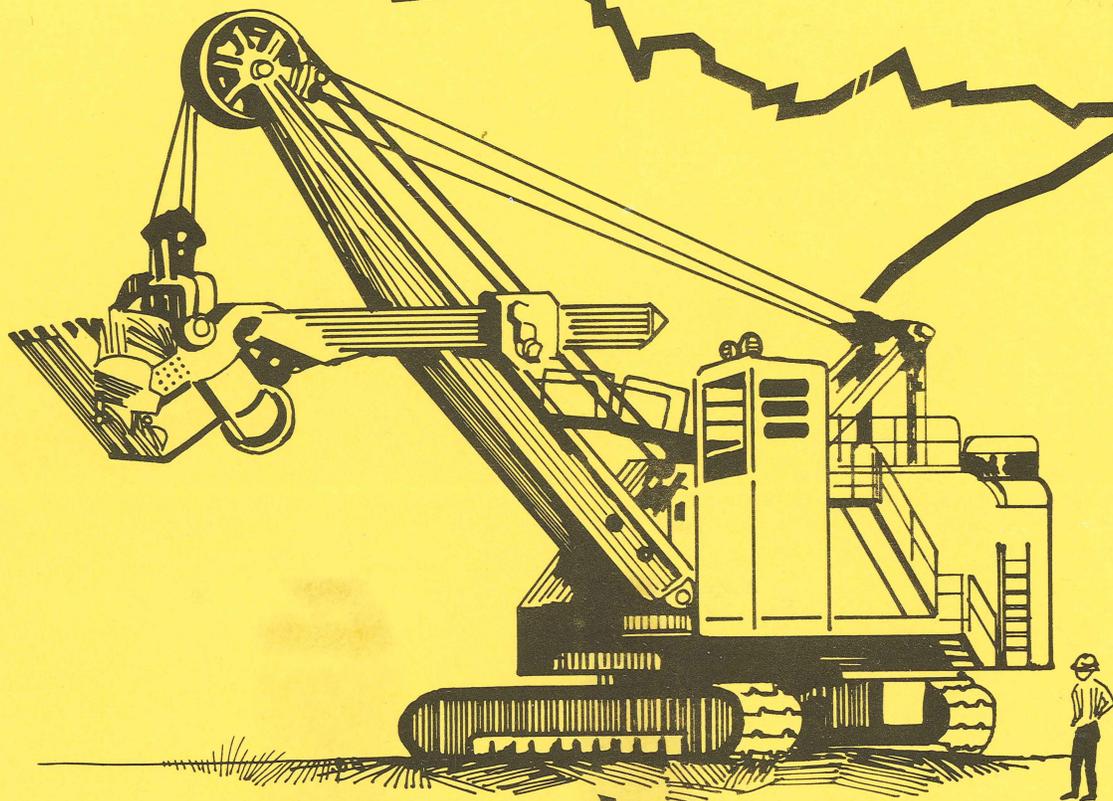


MINNESOTA MINING TAX GUIDE



**Department of Revenue
Minerals Tax Division**

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December 1982

INTRODUCTION

This tax guide is intended to serve as a quick reference to Minnesota's mining tax structure as it exists today. This publication essentially updates a previous publication entitled The Minnesota Mining Tax Guide, dated July 1978.

This revision is dated December 1982.



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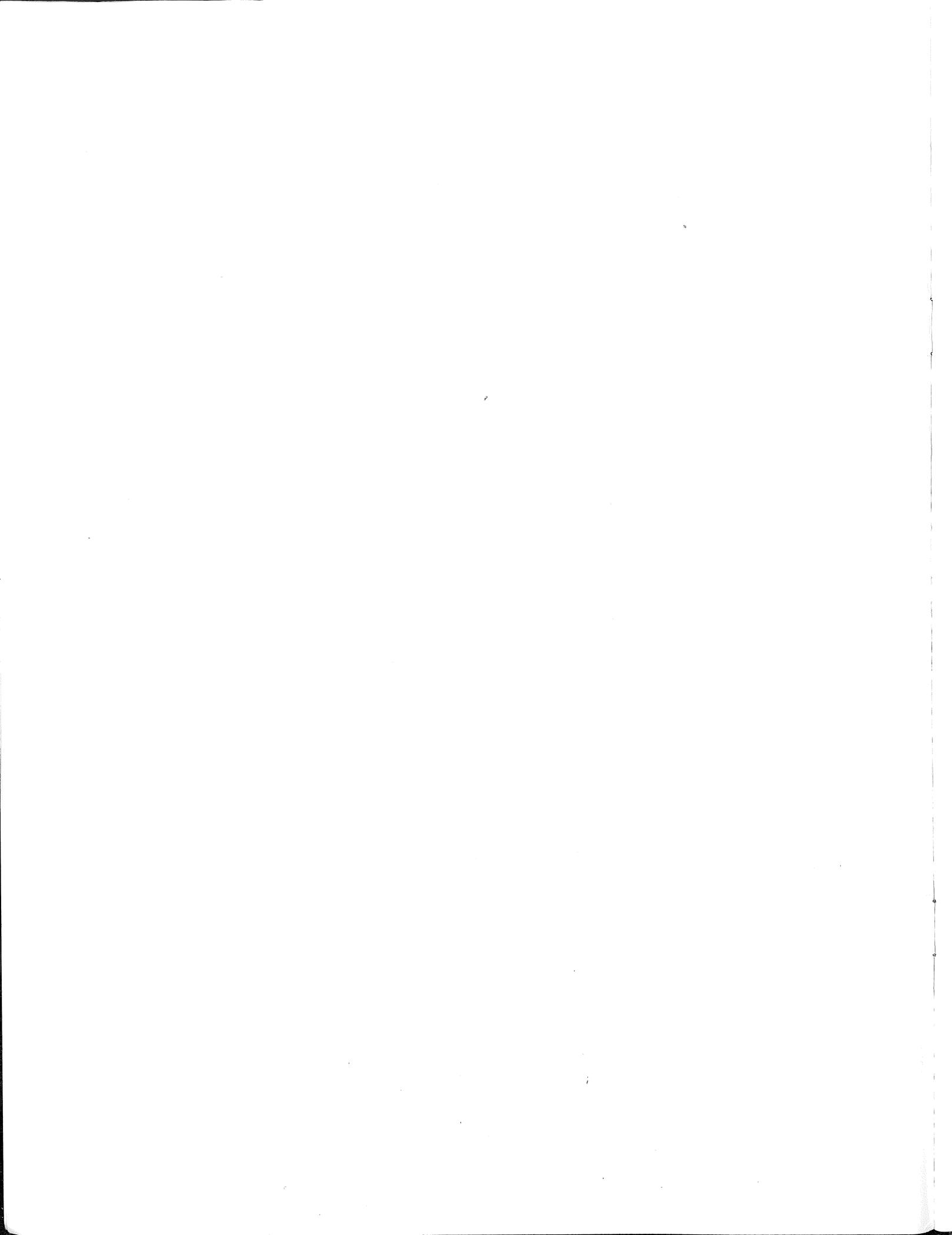
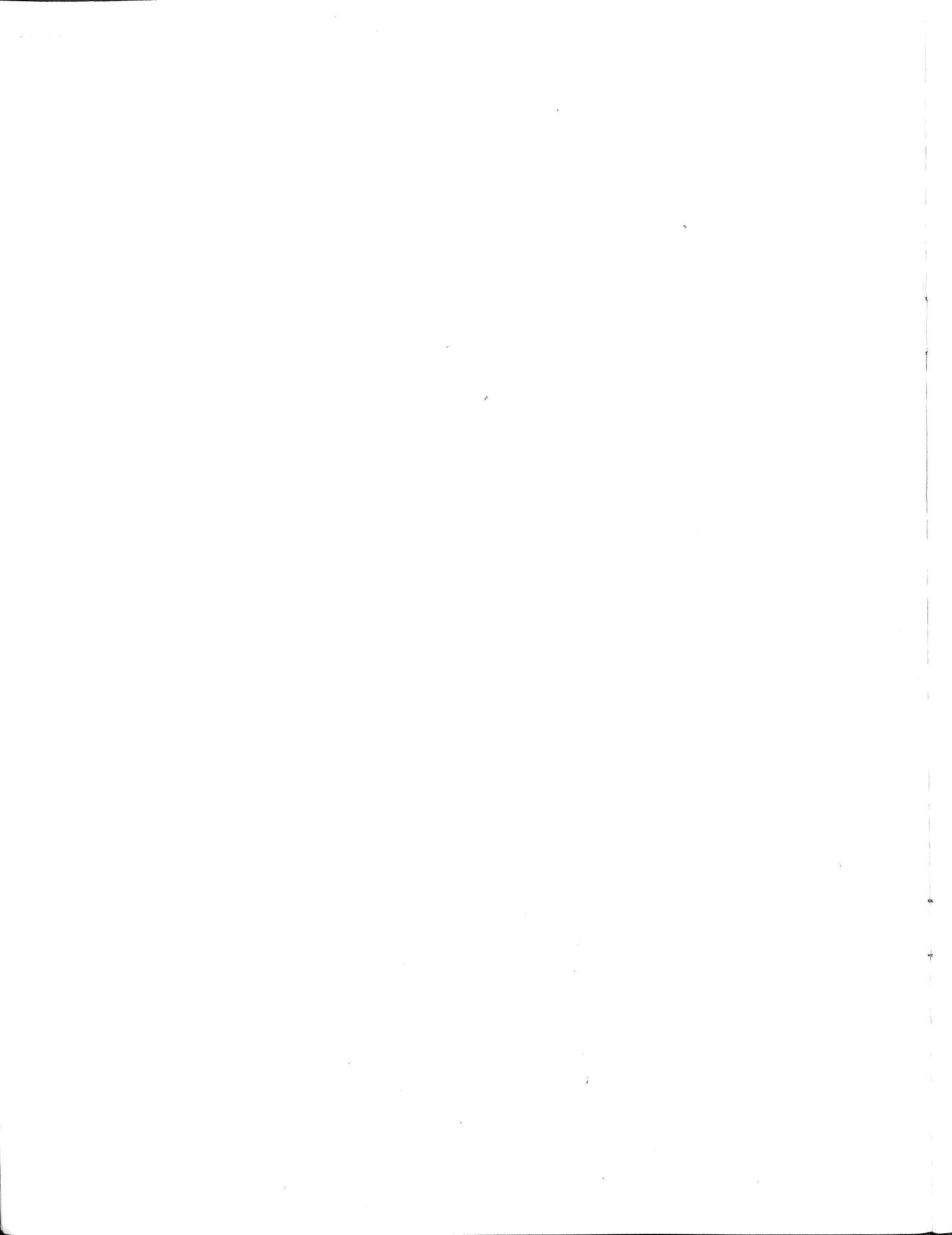


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THE IRON ORE AND TACONITE MINING INDUSTRY IN MINNESOTA

The iron ore mining industry in Minnesota is approximately 100 years old and is found exclusively in the northeastern part of the state. (See map, page 2).

While J. G. Norwood noted the existence of iron formations at Gunflint Lake and Lake Vermillion in the early 1850's, it wasn't until 1865 that the first important discovery of iron ore was made by Henry H. Eames, Minnesota State Geologist. In 1884, after a railroad line had been built from Tower to Two Harbors, the first lake cargo of iron ore was shipped. The first shipments of ore were from the Soudan mine in the Vermillion Range. Development of the Mesabi Range began in the early 1890's by the Merritt Brothers. Production in the Cuyuna Range did not begin until 1911.

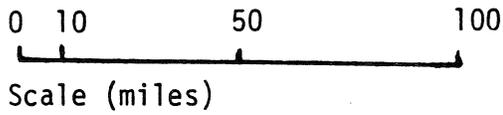
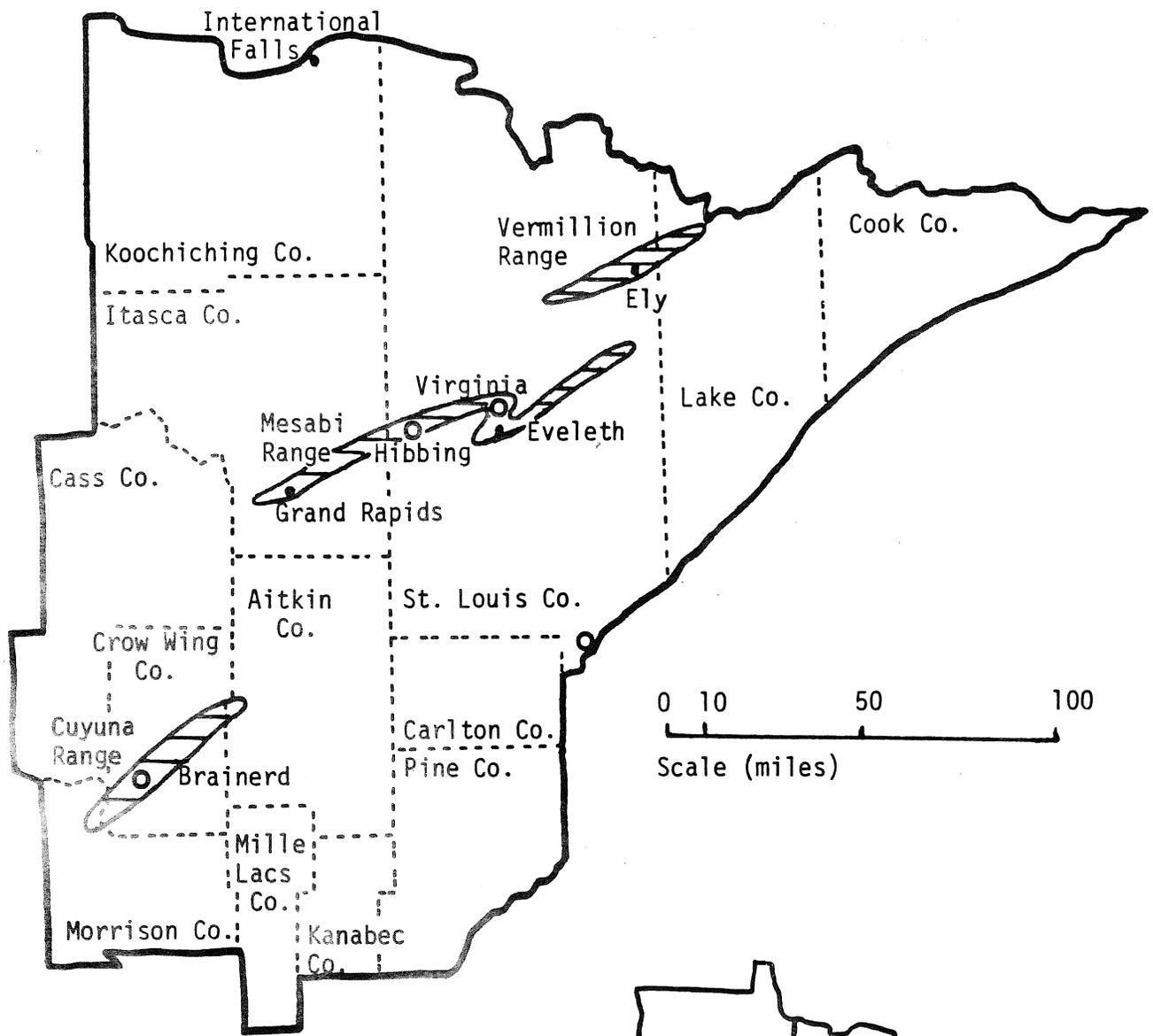
By 1900, Minnesota's mining industry had an annual production of 9,465,000 tons. Many of the early iron ore mining operations were underground. However, it was not long before most of the larger operations switched to open pit mining using steam shovels and rail hauls from the pits. These were later replaced by electric shovels and diesel and electric locomotives and trucks.

The shift in Minnesota's mining industry from iron ore to an emphasis on taconite production began in the later 1940's and early 1950's. The shift in emphasis to taconite production is shown in the following table:

TABLE 1 -- THE CHANGING STRUCTURE OF MINNESOTA'S
IRON ORE MINING INDUSTRY

<u>Year</u>	<u>Total Production (000's of Tons)</u>	<u>Percent of Total</u>	
		<u>Iron Ore</u>	<u>Taconite</u>
1950	65,235	99.9%	0.1%
1955	67,893	98.0	2.0
1960	57,425	76.7	23.3
1965	52,466	63.8	36.2
1970	56,520	37.5	62.5
1975	51,067	20.1	79.9
1980	45,281	4.9	95.1

Minnesota's share of total U. S. production has been consistently greater than 60 percent, generally falling in the 60 to 70 percent range. While Minnesota's share of total U. S. production has remained steady, Minnesota's share of total world production has been steadily declining. In 1950, Minnesota's mining industry produced over 25 percent of the total world production of iron ore and taconite. By 1960, this had dropped to just over 11 percent and, in 1975, was just under six percent. Since 1975, Minnesota production has been holding at about six percent of the world production.



Minnesota's Mining Industry
Iron Ore and Taconite Deposits

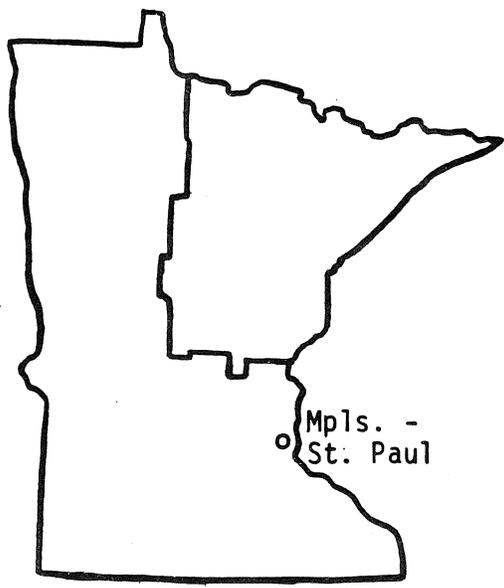


TABLE 2 -- MINNESOTA'S SHARE OF U. S. AND WORLD
PRODUCTION OF IRON ORE

<u>Year</u>	<u>Minnesota Production Tons (000's)</u>	<u>% Minn. U. S.</u>	<u>U.S. Production Tons (000's)</u>	<u>% Minn. World</u>	<u>World Production Tons (000,000's)</u>
1950	65,235	66.5	98,045	26.4	247
1955	67,893	65.9	103,003	18.7	363
1960	57,425	64.7	88,784	11.2	514
1965	52,466	60.0	87,439	8.6	611
1970	56,520	63.0	89,760	7.5	754
1975	51,067	64.8	78,866	5.8	888
1976	50,069	62.6	79,993	5.7	886
1977	31,019	55.6	55,751	3.7	838
1978	55,451	68.0	81,583	6.6	840
1979	59,563	69.5	85,716	6.6	897
1980	45,280	65.0	69,613	5.2	874
1981	51,033	68.7	74,300*	6.0	850*

*Preliminary figures

TABLE 3 -- SUMMARY OF ALL TAXES PAID BY THE
MINNESOTA MINING INDUSTRY
(000 DOLLARS)

<u>TAX</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Ad Valorem - Unmined Natural Ore	\$ 10,222	\$ 4,560	\$ 3,688
Occupation	12,439	23,993	14,808
Taconite Production	4,253	30,347	87,179
Railroad Gross Earnings	1,769	3,072	2,984
Royalty	1,753	3,652	5,355
Unmined Taconite	64	64	240
Sales and Use	<u>N/A*</u>	<u>7,214</u>	<u>9,982</u>
TOTAL:	\$ 30,500	\$ 72,902	\$124,236

* Not Available

AD VALOREM TAX ON UNMINED
NATURAL IRON ORE

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 tax levy is collected by the county auditor.

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. Uneconomic ores which cannot be valued by the Hoskold Formula are valued according to a "class rate" system. The Department maintains a schedule of minimum rates for this purpose.

The schedule currently in use was adopted in 1974 and is listed as follows:

<u>CLASSIFICATION</u>	<u>UNIT RICE RATIO</u>
<u>Open Pit -</u>	
Merch Ore	\$.009276
Wash Ore	.004992
Heavy Media Ore	.003865
Paint Rock Ore	.002495
<u>Underground -</u>	
Merch Ore	\$.001546
Wash Ore	.000832
Heavy Media Ore	.000644
Paint Rock Ore	.000416

The rice ratio is the ratio of the dry iron to the sum of the dry silica plus the dry alumina.

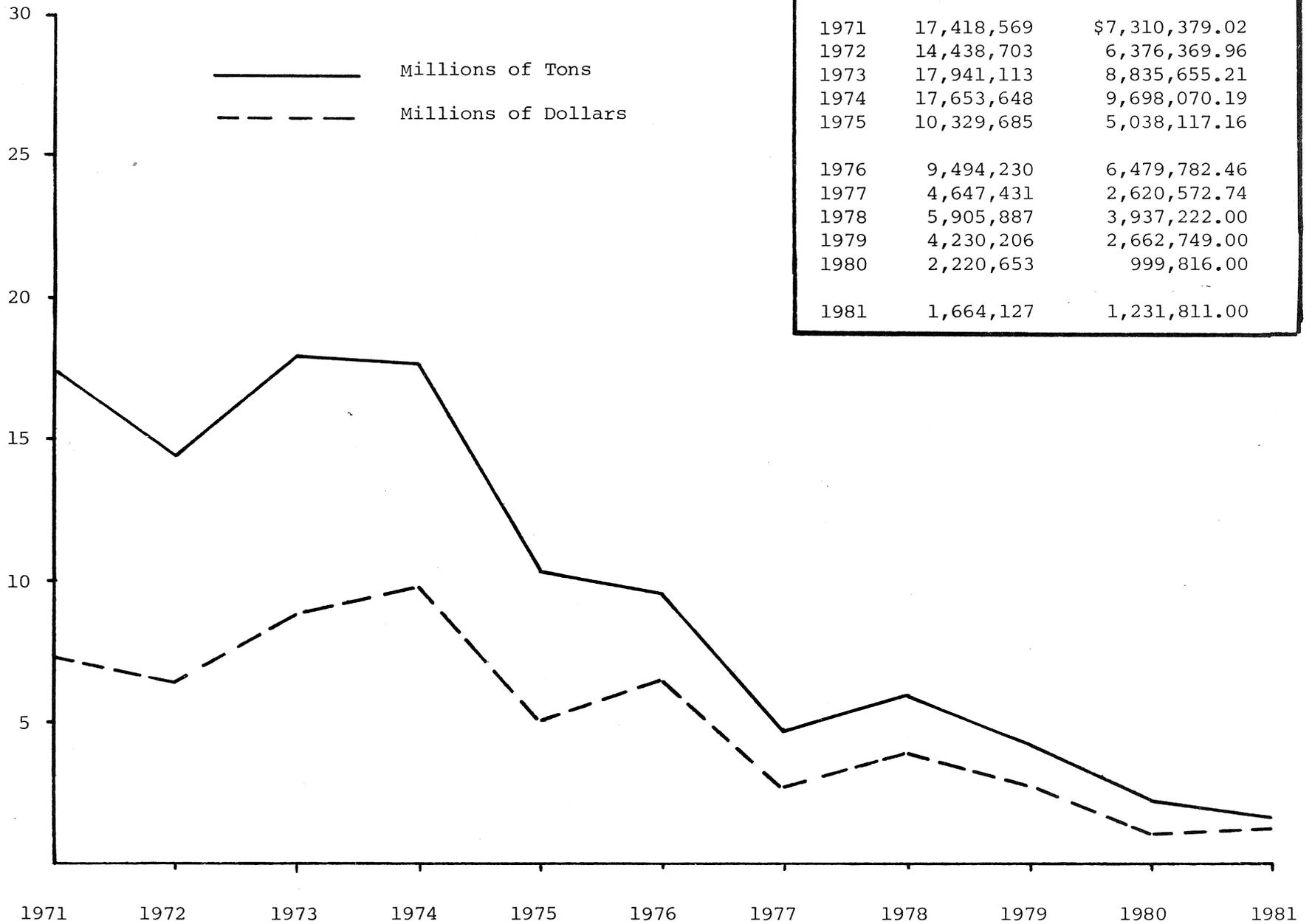
The assessed rate per ton is determined by multiplying the rice ratio of a particular ore times the unit rice ratio for the appropriate classification. This rate per ton is then multiplied by three to determine the value of the unmined ore as per M.S. 273.1104.

A record of iron ore ad valorem taxes since 1970 is listed as follows:

<u>YEAR PAYABLE</u>	<u>COUNTY</u>	<u>LOCAL</u>	<u>TOTAL</u>
1971	3,448,777	6,773,671	10,222,448
1972	3,250,105	4,391,721	7,641,826
1973	2,921,888	4,011,868	6,933,756
1974	2,692,412	3,820,836	6,513,248
1975	2,364,788	3,264,638	5,629,426
1976	1,860,429	2,599,476	4,459,905
1977	1,741,437	2,298,178	4,039,615
1978	1,838,862	2,401,434	4,240,296
1979	1,920,313	2,483,562	4,403,875
1980	2,243,224	2,107,416	4,350,640
1981	1,786,269	1,902,005	3,688,274
1982	1,713,327	2,091,716	3,805,043

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore shall be held on the first secular day following the 10th day of October. This hearing provides an opportunity for representatives of the mining companies and taxing districts to formally protest any of the ore estimates or valuation procedures which they believe to be incorrect.

NATURAL IRON ORE PRODUCTION TONS
AND OCCUPATION TAX DOLLARS
FOR MINNESOTA



OCCUPATION TAX ON TACONITE, SEMI-TACONITE AND IRON ORE

INTRODUCTION

In 1921, the Minnesota State Legislature imposed a special tax, the occupation tax, upon "...every person engaged in the business of mining or producing iron ore or other ores in this state." Although the occupation tax resembles a corporate income tax, it is somewhat more restrictive concerning deductible expenses.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

This determination process consists of two major steps. The first step is the determination of the value of iron ore at the mouth of a Minnesota mine, the starting point for Minnesota's occupation tax. Because no published market price exists for ore at the mouth of a Minnesota mine, the value is calculated rather than directly set by the market. The value is determined by deducting expenses incurred beyond the mouth of the mine from the recognized and published market value of iron ore delivered to Lake Erie ports. In effect, this value is obtained by working backward from a Lake Erie port dock to the mouth of a Minnesota mine.

Therefore, certain expenses known as nonstatutory deductions are subtracted from the Lake Erie value of iron ore. These expenses are called nonstatutory deductions because they are not specified by statute, but instead, resulted from administrative practice and court decisions. Included in this expense category are stockpiling and loading costs, transportation costs from the mine to Lake Erie ports, beneficiation (ore processing) costs, and other miscellaneous expenses incurred beyond the mouth of the mine which are quoted in the Lake Erie value of ore.

The second step is the procedure of determining the value of ore for purpose of tax. Subtracted from the value of iron ore at the mouth of a Minnesota mine are certain expenses, specified by statute, called the "statutory deductions." Included in the statutory deductions are:

- 1) Mining costs
- 2) Amortized development costs
- 3) A portion of the ad valorem taxes applicable to tonnage mined (for taconite producers, a portion of the production tax)
- 4) Royalty expense
- 5) Plant and equipment depreciation
- 6) Other miscellaneous expenses

After subtraction of the statutory deductions, a taxable value of ore for purpose of tax is established.

Minnesota's occupation tax is more restrictive than a corporate income tax. Most noticeable as nonallowable expenses are:

- 1) Federal income taxes
- 2) Contributions
- 3) Legal fees
- 4) General out-of-state administrative expenses
- 5) Depletion allowances
- 6) Royalty taxes
- 7) Loss carryover
- 8) Entertainment expense

The occupation tax rate has been increased and decreased over the years from its initial rate of six percent in 1921, but generally the trend has been toward increases to its present rate of 15.5 percent for natural ore and 15 percent for taconite.

OCCUPATION TAX CREDITS

Substantial credits are allowed against the occupation tax. Foremost of the various credits is a credit for high labor cost ores.

Presently, all taconite producers benefit from the "labor credit" with some producers reducing their net effective occupation tax rate from 15 percent to 6.75 percent. For natural ore, the 15.5 percent is usually reduced to approximately 14 percent. Additionally, all ore producers are eligible for credits for investment in pollution control equipment and costs incurred for exploration and research on Minnesota ores.

Natural ore producers are also allowed a credit for mining costs exceeding the value of ore (loss mine credit). Small independent iron ore producers are allowed a credit for selling ore below the quoted Lake Erie value of the ore (discount credit).

OCCUPATION TAX ALLOCATION

The proceeds from the occupation tax are deposited in the state general fund. Distribution is constitutionally mandated with 40 percent to elementary and secondary schools, 10 percent for the University of Minnesota, and 50 percent remaining in the general fund.

M.S. 298.40 - (THE TACONITE AMENDMENT)

The Taconite Amendment to the Minnesota Constitution was passed by the voters in 1964. This amendment limited the taxes imposed upon the two existing and any new taconite producers through 1989.

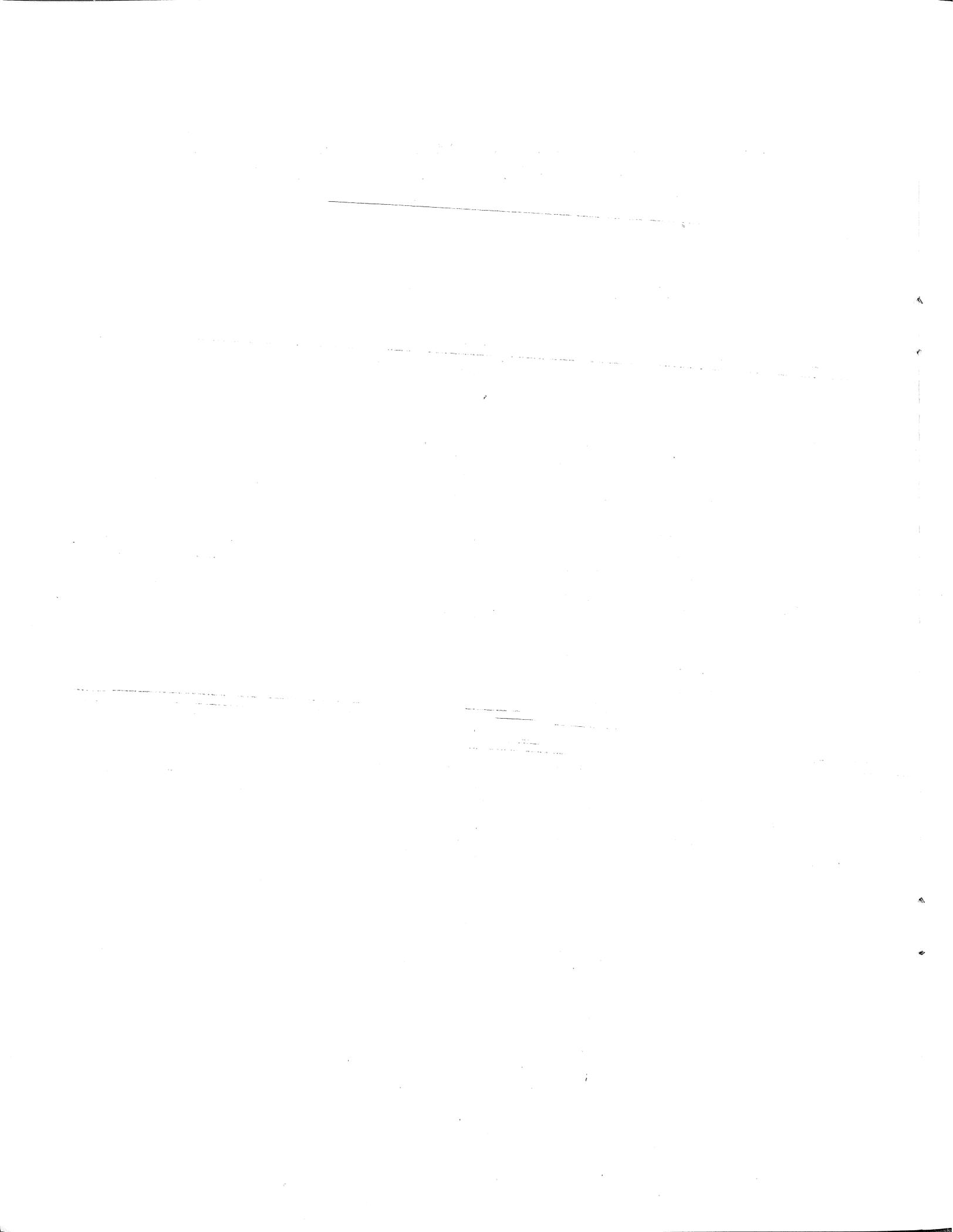
This provision states that "the combined occupation, royalty, and excise taxes" of any taconite producing company for any of the next 25 years "shall not be increased so as to exceed the greater of" (a) the amount of these same taxes computed under the laws of 1963, or (b) the amount of taxes (income and excise) which would be payable if the taconite company was a manufacturing corporation.

Subsequent tax law changes and tax rate changes have resulted in differing interpretations of the taconite amendment between mining companies and the state. These differing interpretations are currently in litigation.

TABLE 4 -- IRON ORE AND TACONITE PRODUCED IN MINNESOTA (THOUSANDS OF TONS)
AND OCCUPATION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1981

<u>Year</u>	<u>Iron Ore</u>		<u>Taconite</u>		<u>Totals</u>	
	<u>Tons Produced</u>	<u>Occup'tn. Tax</u>	<u>Tons Produced</u>	<u>Occup'tn. Tax</u>	<u>Tons Produced</u>	<u>Occup'tn. Tax</u>
1955	66,545	\$ 31,501	1,348	\$ 0	67,893	\$ 31,501
1956	57,529	27,480	5,064	0	62,593	27,480
1957	61,304	33,106	6,811	154	68,115	33,360
1958	33,247	16,353	8,572	161	41,819	16,514
1959	27,578	11,942	8,417	93	35,995	12,035
1960	44,042	20,655	13,383	638	57,425	21,293
1961	30,458	13,010	13,182	898	43,640	13,908
1962	30,543	11,276	14,526	1,108	45,069	12,384
1963	28,682	10,886	16,701	1,426	45,383	12,204
1964	30,636	12,921	18,505	1,658	49,141	14,132
1965	33,462	15,646	19,004	1,740	52,466	17,392
1966	32,601	15,545	21,677	1,898	54,278	17,369
1967	25,480	12,646	24,311	1,611	49,791	14,250
1968	21,893	10,802	30,269	1,807	52,162	12,624
1969	22,511	10,968	31,125	2,285	53,636	13,269
1970	21,172	9,278	35,348	3,161	56,520	12,455
1971	17,530	7,301	33,778	5,379	51,308	12,689
1972	14,439	6,376	34,554	3,659	48,993	10,040
1973	17,941	8,836	41,829	6,824	59,770	13,709
1974	17,654	9,698	41,053	10,092	58,707	19,933
1975	10,258	5,038	40,809	18,955	51,067	24,255
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,811
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	*12,708	51,033	13,940

* Adjusted by provisions of M.S. 298.40



TACONITE PRODUCTION TAX

Taconite and semi-taconite are generally exempt from the ad valorem tax and have been taxed under a production tax "in lieu of" ad valorem taxes. Certain limited ad valorem taxes which do apply to the taconite industry are discussed in more detail in the section covering unmined taconite taxes.

Prior to the 1940's, taconite had little value since no method had been developed to profitably produce concentrate from Minnesota's huge reserves of taconite. In 1941, the legislature imposed a production tax on taconite and semi-taconite which was "in lieu of" the ad valorem tax. The original tax was five-cents-per-ton with an escalator equal to 0.1-cent-per-ton for each one percent that the iron content of the finished product exceeded 55 percent. The proceeds of this tax were to be shared equally by the state, the counties, the school districts, and the cities and townships with each receiving 25 percent.

At the time of the passage of this Act, no taconite operations existed, and only one--Reserve Mining Company--appeared on the horizon. Research by E. W. Davis and preliminary work by the Mesabi Iron Company greatly assisted the development of taconite. However, since the inception of the 1941 law, taconite production has increased substantially. As production increased, major changes were made in the rate of the production tax and in the distribution. In all, there were five major changes either in the amount of the tax or in its distribution.

The last major change in the production tax was made by the 1977 legislature. The base tax rate was increased to \$1.25-per-ton of merchantable iron ore concentrate produced in 1977. This base rate increases by 1.6 percent for each one percent that the dry iron content exceeds 62 percent.

For 1978 and beyond, this base rate of \$1.25-per-ton is adjusted by the ratio of the steel mill products index for January of the production year to the steel mill products index of January 1977. In no case shall this base rate drop below \$1.25-per-ton. The steel mill products index is published by the U. S. Department of Labor, Bureau of Labor Statistics, in the monthly Producer Price Index.

In an effort to stabilize production tax revenues, the production tax is based on a three-year average of production or the current year's production, whichever is greater. This provision for averaging was effective starting with the 1977 production year.

The average production tax rate for 1981 was \$1.92-per-ton when the price index and the iron content escalations were computed. The average rate for the 1982 production tax is estimated to be \$2.08-per-ton using the three-year production average for taxable tons. Little or no change is anticipated for 1983 since the steel mill products index has stabilized.

The proceeds of the taconite production tax are distributed as follows based on laws in effect in 1982 (all figures are cents per ton):

Taconite Cities and Towns:		2.5¢
Taconite Municipal Aid Account:		12.3¢
School Districts -		
1) Taconite schools (mining and/or concentrating in the district):	6.0¢	
2) School districts that qualify for taconite homestead credit in proportion to their levies: ^{1(a)}	23.0¢	
Basic School District Total:		29.0¢
3) School Fund Index: ^{1(b)} (formula amount)		
Counties -		
1) Taconite Counties: ²	15.5¢ ³	
2) Taconite Counties Road and Bridge:	4.0¢ ³	
Counties Total:		19.5¢ ³
Taconite Property Tax Relief: ⁴		25.75¢ ³
State:		1.0¢ ³
I.R.R.R.B.:		3.0¢ ³
Range Assn. of Municipalities and Schools:		0.2¢

Note 1 - (a) Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. The remainder is then distributed to the school districts in direct proportion to school district tax levies (all school districts in the taconite relief area).

(b) On July 15, 1982, and on July 15 in subsequent years, taconite school districts may qualify for an additional \$150 per pupil unit over and above state aids by passing a two mill levy referendum. The school district will receive additional taconite aid in the amount of \$150 per pupil unit less the amount raised locally by the two mills. This money comes from a fund referred to as School Fund Indexed created by indexing the 23-cent school fund amount over the base year of 1977.

Note 2 - If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county (Cook County) other than the county in which the mining and concentrating processes are conducted, one-cent of the 15.5-cents-per-ton shall be distributed to the county in which the power plant is located (this one-cent is not escalated).

Note 3 - These base year amounts will be increased in 1979 and subsequent years by the rate of growth in the steel mill products index. The escalation factor used for the 1982 distribution (1981 production year) was 1.45775.

Note 4 - If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county (Cook County) other than the county in which the mining and concentrating processes are conducted, .75 cents of the 25.75-cents-per-ton in the Taconite Property Tax Relief account shall be distributed to the county and school district in which the power plant is located with 25 percent going to the county and 75 percent to the school district. (This .75 cents is escalated by the steel mill products index).

In addition to the preceding distribution, additional amounts are distributed as follows:

1. In 1978 and each year thereafter, there will be distributed to each city, town, school district, and county the amount that they received in 1977 from the distribution of the gross earnings tax on taconite railroads.

Amount: \$3,160.899

2. In 1978 and each year thereafter, there will be distributed to the Iron Range Resources and Rehabilitation Board the amount it received in 1977 from the distribution of the taconite and iron ore occupation taxes.

Amount: \$1,252,520

3. All proceeds from the taconite production tax remaining after the above distributions shall be divided between the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The Taconite Environmental Protection Fund will receive two-thirds, and the Northeast Minnesota Economic Protection Fund will receive one-third.

The 1982 legislature increased the taconite production tax credit to four-cents per gross ton for school district bonds. However, a credit of seven-cents per ton is allowed for Independent School District 703, Mt. Iron. The school bond credits are subtracted from the amount which would otherwise be distributed to the Northeastern Minnesota Economic Fund.

TABLE 5 -- SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION

	<u>1975</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
State	240,363	553,732	480,280	550,897
I.R.R.R.B. (3¢ Indexed)	1,073,275	1,107,465	2,001,839	2,265,289
Taconite Property Tax Relief	8,688,442	17,278,133	17,351,585	19,317,006
Taconite Municipal Aid	3,399,588	6,810,913	6,810,913	6,776,075
County	3,771,167	10,548,168	10,809,240	11,891,939
County Road & Bridge	591,524	2,717,369	2,784,744	3,056,888
School District - Regular	10,396,319	3,377,485	3,304,789	3,383,849
School District - Funding		12,735,853	12,735,853	12,670,617
School District Fund - Indexed	-0-	-0-	-0-	5,453,504
Range Assn. of Municipalities & Schools	-0-	110,747	110,747	110,181
City & Township	936,388	1,384,332	1,353,460	1,382,071
Taconite Environmental Protection Fund	-0-	17,928,979	15,663,492	18,899,997
N.E. Minnesota Economic Protection Fund	-0-	8,964,490	9,358,171	8,846,607
I.R.R.R.B. (Fixed)	-0-	1,252,520	1,252,520	1,252,520
Taconite Railroad Fixed Distribution	-0-	3,160,899	3,160,899	3,160,899
Filtration Fund	<u>1,250,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 TOTAL:	 30,347,066	 88,484,818	 87,178,532	 99,018,289

DISTRIBUTION OF TACONITE PRODUCTION TAX
BASED ON 125-CENTS-PER-TON

		2.5¢ (Fixed) -- Cities or Townships	
		12.3¢ (Fixed) -- Taconite Municipal Aid Account	
		0.2¢ (Fixed) -- Range Association of Municipalities & Schools	
		6.0¢ (Fixed) -- School Districts	
		23.0¢ (Fixed) -- School Fund	** Escalation portion of 23¢ as per steel mill index is distributed to taconite area school districts by formula, balance goes to environmental and economic funds.
	School Fund Index**		
		4.0¢* -- County Road & Bridge Fund	
		15.5¢* -- Counties	* These amounts, as well as the \$1.25 base tax, are increased in the same proportion as the steel mill products index. (The base tax is also subject to an increase based on the iron content for each firm).
		25.75¢* -- Taconite Property Tax Relief Account	
		1.0¢ (Fixed) -- State of Minnesota	
		3.0¢* -- Iron Range Resources & Rehabilitation Board	
		<u>Residual</u>	
		<u>Fixed Distributions:</u>	
		\$3,160,899 -- Distribution to counties, cities, towns, and school districts	
		\$1,252,520 -- Iron Range Resources & Rehabilitation Board	
		<u>Remainder:</u>	
		One-Third -- Northeast Minnesota Economic Protection Fund	
		Two-Thirds -- Taconite Environmental Protection Fund	

TABLE 6 -- TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1982

<u>Cities & Townships</u>	<u>Mining & Concentrating</u>	<u>Taconite* Railroad</u>	<u>Taconite Municipal Aid</u>	<u>Total</u>
Aurora	3,041	---	178,061	181,102
Babbitt	111,388	166,767	220,482	498,637
Biwabik	---	---	93,603	93,603
Bovey	---	---	53,291	53,291
Buhl	---	---	84,164	84,164
Calumet	---	---	30,742	30,742
Chisholm	---	---	388,702	388,702
Coleraine	---	---	73,152	73,152
Crosby	---	---	145,386	145,386
Ely	---	---	315,943	315,943
Eveleth	63,632	---	334,021	397,653
Franklin	2	---	1,770	1,772
Gilbert	---	---	179,963	179,963
Hibbing	296,456	---	1,414,913	1,711,369
Hoyt Lakes	166,016	152,153	301,733	619,902
Ironton	---	---	35,199	35,199
Keewatin	13,119	---	102,912	116,031
Leonidas	47	---	6,227	6,274
Marble	---	---	49,620	49,620
McKinley	---	---	15,076	15,076
Mountain Iron	346,464	---	416,647	763,111
Nashwauk	11,714	---	101,092	112,806
Riverton	---	---	7,341	7,341
Silver Bay	104,223	152,706	249,184	506,113
Taconite	---	---	21,697	21,697
Trommold	---	---	5,506	5,506
Virginia	17,030	---	727,544	744,574
Balkan Township	---	---	61,222	61,222
Bass Brook Township	---	---	122,641	122,641
Bassett Township	---	11,745	---	11,745
Beaver Bay Township	---	12,565	---	12,565
Biwabik Township	---	---	67,777	67,777
Breitung Township	---	---	61,157	61,157
Crystal Bay Township	---	6,951	---	6,951
Fayal Township	5,277	---	142,568	147,845
Grand Rapids Township	---	---	208,378	208,378
Great Scott Township	12,046	---	40,489	52,535
Greenway Township	27,863	---	83,285	111,148
Irondale Township	---	---	54,864	54,864
Lone Pine Township	4,477	---	2,820	7,297
McDavitt Township	71,307	---	44,558	115,865
Nashwauk Township	22,250	---	61,595	83,845
Rabbitt Lake Township	---	---	12,062	12,062
Schroeder Township	---	47,700	21,303	69,003
Silver Creek Township	---	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
White Township	49,758	---	176,703	226,461
Wouri Township	55,961	---	49,161	105,122
Wolford Township	---	---	11,471	11,471
**TOTALS	1,382,071	591,142	6,776,025	8,749,238

* Taconite railroad aids are a fixed amount paid from current production tax revenues based on 1977 taconite railroad gross earnings tax distributions.

** All distributions in 1982 result from 1981 production year tax revenues.

TABLE 7 -- TACONITE PRODUCTION TAX DISTRIBUTION
TO COUNTIES - 1982*

<u>County</u>	<u>Regular County 15.5¢ Escalated</u>	<u>County Road & Bridge 4¢ Escalated</u>	<u>Taconite Railroad</u>	<u>Total</u>
Cook	129,620	---	187,190	316,810
Itasca	618,038	159,444	---	777,482
Lake	941,975	243,090	243,034	1,428,099
St. Louis	<u>10,202,306</u>	<u>2,654,354</u>	<u>354,153</u>	<u>13,210,813</u>
TOTAL:	11,891,939	3,056,888	784,377	15,733,204

* Distribution in calendar year 1982
based on 1981 production year.

TABLE 8 -- TACONITE PRODUCTION TAX DISTRIBUTION
TO SCHOOL DISTRICTS - 1982

<u>School Districts</u>	<u>6¢</u>	<u>23¢</u>	<u>Taconite Railroad</u>	<u>School Fund Index</u>	<u>Total</u>
# 1 - Aitkin	---	700,550	---	171,406	871,956
#166 - Cook County	95,053 ¹	328,045	427,383	---	850,481
#182 - Crosby- Ironton	---	634,371	---	183,724	818,095
#316 - Coleraine	116,383	614,849	---	268,529	999,761
#318 - Grand Rapids	---	2,450,684	---	475,597	2,926,281
#319 - Nashwauk- Keewatin	152,176	263,851	---	130,318	546,345
#381 - Lake Superior	250,136	862,767	552,774	443,107	2,108,784
#691 - Aurora- Hoyt Lakes	456,641	662,684	345,802	254,053	1,719,180
#692 - Babbitt	271,443	323,904	459,421	172,198	1,226,966
#693 - Biwabik	68,026	316,912	---	51,169	436,107
#694 - Buhl	13,551	183,403	---	---	196,954
#695 - Chisholm	---	336,151	---	185,690	521,841
#696 - Ely	---	327,799	---	146,043	473,842
#697 - Eveleth	166,412	400,717	---	179,712	746,841
#699 - Gilbert	---	169,655	---	95,760	265,415
#701 - Hibbing	634,199	1,173,321	---	572,000	2,379,520
#703 - Mt. Iron	831,514	674,794	---	120,432	1,626,740
#706 - Virginia	157,176	691,254	---	291,772	1,140,202
#708 - Tower-Soudan	---	324,653	---	53,230	377,883
#710 - St. Louis Cty.	<u>171,139</u>	<u>1,230,253</u>	<u>---</u>	<u>403,393</u>	<u>1,804,785</u>
	3,383,849	12,670,617	1,785,380	4,198,133	22,037,979

1 - Erie Power Plant distribution

TABLE 9 -- TACONITE PRODUCTION AND TAX REVENUE
FOR PRODUCTION YEAR 1981 -- BY FIRM

<u>Firm</u>	<u>1981 Production Tons</u>	<u>1981 Taxable Tonnage¹</u>	<u>Tax Rate²</u>	<u>Production³ Tax Revenue</u>
Butler	2,194,960	2,194,960	1.9326845	4,242,165
Erie	8,331,685	8,331,685	1.8976985	15,811,026
Eveleth	5,879,859	5,879,859	1.9105267	11,233,628
Hibbing	7,125,897	7,125,897	1.9358916	13,794,964
Inland	2,385,967	2,385,967	1.9425972	4,634,973
National	3,424,392	3,896,221	1.9280197	7,511,991
Reserve	7,643,807	7,643,807	1.9227718	14,514,040
U. S. Steel	<u>12,381,951</u>	<u>14,340,401</u>	<u>1.9061535</u>	<u>27,335,005</u>
TOTAL:	49,368,518	51,798,797	1.9162810	99,077,792

1 - Taxable tonnage is the larger of the year actual production or the average production for the last three years.

2 - The base rate of 1.25 per ton is adjusted for any increase in the steel mill products price index over the 1977 base and for each firm by the iron content of the pellets produced by the firm.

3 - Does not include credits for overpayments in previous years or any other adjustments.

TABLE 10 -- AVERAGE DISTRIBUTION OF THE PRODUCTION TAX
(CENTS-PER-TON)

1982 DISTRIBUTION (1981 PRODUCTION YEAR)

<u>Aid Recipient</u>	<u>Cents Per Taxable Ton</u>
Taconite Cities and Towns	2.7¢
Taconite Municipal Aid	13.1¢
School Districts*	39.1¢
County	23.0¢
County Road and Bridge	5.9¢
Taconite Property Tax Relief	37.3¢
State of Minnesota	1.1¢
I.R.R.R.B.	6.8¢
R.A.M.S.	.2¢
Taconite Railroad Grand- father Amount	6.1¢
Taconite Environmental Protection Fund	38.1¢
N.E. Minnesota Economic Protection Fund	17.9¢
School Bond Credit	<u>.3¢</u>
	191.6¢

* 31¢-per-ton is a subtraction from either levy
or state aid



GROSS EARNINGS TAX ON TACONITE RAILROADS

M.S. 294.21 - M.S. 294.26

Every company owning or operating a taconite railroad shall pay annually into the state treasury a sum of money equal to five percent of the gross earnings derived from the operation of such taconite railway within the state. The gross earnings shall be the sum of money equal to the amount which would be charged under established tariffs of common carriers for the transportation of iron ore from the Mesabi Range to ports at the head of Lake Superior. If coal or other commodities are transported, the gross earnings shall include an amount equal to the established tariffs of common carriers for the same quantities of similar commodities.

At the present time, the tax applies only to Reserve Mining Company and Erie Mining Company railroads.

The tax is due twice a year in six month increments:

<u>PERIOD COVERED</u>	<u>DUE</u>
January 1 - June 30	On or before September 1
July 1 - December 31	On or before March 1

The companies submit a report with their payment containing such information as number of tons shipped, freight and handling rates, taxable earnings, transportation of other commodities, truck mileage in each taxing district, and a summary of taxable earnings.

Prior to 1978, the revenue from the gross earnings tax on taconite railroads was deposited in the State's general fund and distributed to the various taxing districts in which such railroad operations were conducted in the following proportions:

City, Village or Town	22%
School District	50%
County	22%
State	<u>6%</u>
	100%

The first three accounts were distributed to individual taxing districts based on the location of terminal facilities and trackage.

Beginning in 1978, the amount of the 1977 distribution to the first three accounts was frozen and the distribution made from the taconite production tax. The revenue collected from the gross earning tax on taconite railroads is now allocated 100 percent to the state general fund.

GROSS EARNINGS TAX ON TACONITE RAILROADS

<u>Calendar Year</u>	<u>Tax</u>
1977	\$1,509,772.75
1978	\$3,267,250.30
1979	\$3,634,407.44
1980	\$2,983,818.76
1981	\$4,960,605.35

ROYALTY TAXES

In 1923, the Minnesota legislature passed a royalty tax law providing for a six percent tax on any royalties received. Since that time, the gross tax rate has exactly followed the occupation tax rates. Prior to 1959, no labor credits were allowed. The 1923 law assessed the tax against the royalty recipient, but because of the terms of mining leases, the courts have ruled that the leasee was responsible for payment of the tax. This was affirmed by both the Minnesota and United States Supreme Courts in a series of rulings beginning in 1926. Presently, all royalty taxes are collected from the leasee.

The present tax on royalties received in connection with the exploration and mining of taconite and semi-taconite is 15 percent. A credit which reduces the effective tax rate to the net effective tax rate for occupation taxes is allowed for taconite and semi-taconite royalty taxes on land that is being actively mined. "This credit also applies in cases where the minimum royalty is, in fact, a prepaid royalty specified in the terms of the mining lease." In most cases, the net effective occupation tax rate for taconite mining is 6.75 percent.

The tax on the royalties received in connection with the exploration and mining of iron ore is 15.5 percent. A less generous labor credit applies to the mining of natural iron ore which, in most cases, reduces the effective occupation tax rate to approximately 14 percent.

The tax on royalties received in connection with the exploration and mining of copper-nickel ores is one percent plus an additional one percent of the amount of royalty paid on gold, silver, platinum and other precious metals. Royalties on all other ores are taxed at the 15.5 percent rate.

All royalty tax revenue is deposited in the general fund and is not earmarked for any specific distribution.

The royalty tax is not in lieu of personal income tax on royalties. Resident and non-resident recipients of royalties are subject to state income tax in the same manner as if the royalty income were from rents or other business activities in the State of Minnesota.

TABLE 11 -- IRON ORE, TACONITE, COPPER-NICKEL
AND URANIUM ROYALTY TAX
1970 - 1981

<u>Year</u>	<u>Iron Ore Production (000's of Tons)</u>	<u>Iron Ore Royalty Tax (000's)</u>	<u>Taconite Production (000's of Tons)</u>	<u>Taconite Royalty Tax (000's)</u>	<u>Cu-Ni & Uranium Royalty Tax (000's)</u>	<u>Total Revenue (000's)</u>
1970	21,172	\$ 966	35,348	\$ 787	\$ 3	\$ 1,756
1971	17,530	705	33,778	1,323	3	2,031
1972	14,439	904	34,554	1,402	2	2,308
1973	17,941	1,289	41,829	1,886	2	3,177
1974	17,654	1,351	41,053	1,994	2	3,347
1975	10,258	998	40,809	2,657	2	3,657
1976	9,494	686	40,575	2,841	2	3,529
1977	4,647	748	26,372	2,626	2	3,376
1978	5,906	894	49,545	3,280	21	4,195
1979	4,230	807	55,333	4,775	34	5,616
1980	2,221	713	43,060	4,619	22	5,355
1981	1,664	429	49,369	5,392	44	5,866

M.S. 298.26 TAX ON UNMINED TACONITE

A tax not exceeding \$10.00 per acre may be assessed upon the taconite or iron sulphides in any 40-acre tract from which the production of iron ore concentrate is less than 1,000 tons.

The heading on M.S. 298.26 is somewhat misleading in that it refers to a TAX ON UNMINED IRON ORE OR IRON SULPHIDES. The tax was clearly intended to apply to unmined taconite and has been administered in that manner. The wording "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 with certain statutory exemptions administered by the county. These exemptions are 40-acre tracts or government lots with 1,000 tons or more of concentrate produced, as mentioned above, or lands used in the production of taconite as referred to in M.S. 298.25. The County Assessors have generally exempted specific acreages used for tailings basins, power lines, railroads, main service roads, and acreage devoted to actual production facilities. The use of five or 10 acres of taconite reserve lands for these purposes does not exempt an entire 40-acre parcel. Also, actual platted townsite areas have generally been exempt, but there can be exceptions to this, such as dwellings on leased lands.

The exemption for 1,000 tons of production applies only to the unmined taconite tax. However, the exemption for acreages and facilities used in the production of taconite applies to all real estate taxes.

The remaining iron formation lands on the Mesabi Range which are not exempt are divided into two categories by the Engineering Section of the Minerals Tax Division. This was done through evaluation of exploration and mine planning data submitted by the mining companies.

The categories are listed as follows:

1. Those lands which are underlain by magnetic taconite or sufficient quantity and grade to be currently economic.
2. Lands either not believed or not known to be underlain by magnetic taconite of currently economic quantity and grade.

Lands in the first category have been appraised by the Minerals Tax Division as having a value of at least \$500.00 per acre. An assessment rate of 43 percent applies to unmined taconite. Therefore, through application of the above rates, all lands in Category 1 would yield \$10.00 per acre in tax at a \$500.00 market value using currently existing mill rates in St. Louis and Itasca Counties.

Lands in Category 2 have been assigned a nominal value of \$25.00 per acre for the unmined taconite mineral rights. These lands were taxed at \$1.00 per acre prior to 1977. The Category 2 lands have been placed on the tax rolls at an assessed value of \$25.00 x 43 percent, and the actual amount of the tax per acre will vary between taxing districts depending on the mill rate. The low mill rate districts may be less than \$1.00 per acre, while some high mill rate districts may exceed \$2.00 per acre.

TABLE 12 -- TAX COLLECTIONS ON UNMINED TACONITE

<u>County</u>	<u>Year Payable</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>
Itasca	30,832	28,263	30,946
St. Louis	<u>208,916</u>	<u>203,955</u>	<u>209,118</u>
TOTAL:	239,748	232,218	240,064

SALES AND USE TAX

Imposition of the sales and use tax became effective on August 1, 1967. Both natural ore mining and taconite facilities are subject to this tax, just as are other manufacturing businesses.

"Sales" and "Use" taxes are essentially identical. The sales tax is assessed by the vendor at the time of the sale of taxable personal property; the use tax is imposed on the use, storage or consumption of taxable personal property which was purchased without sales tax having been assessed.

The current rate of tax is six percent, having been increased from five percent on January 1, 1983.* The same manufacturing exemptions available to other Minnesota businesses are utilized by the mining companies. The industrial production exemption allows for "chemicals, fuels, petroleum products, lubricants, electricity, gas and steam used or consumed in agricultural or industrial production." Explosives, a major item for the mining industry, are thus exempt under the "chemical" classification.

The "accessory tool" exemption is also available to all "manufacturing-type" businesses. This provision, M.S. 297A.25, Subd. 1(h), as amended January 1, 1974, defines exempt accessory tools as separate detachable units used in producing a direct effect on the product, having a useful life of less than 12 months. Shovel dipper teeth, "cat" ripper teeth, cutting edges, crusher bowls, drill bits, and reamers are examples of this type of exemption.

Currently, there is just one exemption unique to the taconite industry not available to the natural ore facilities or other Minnesota concerns. Under M.S. 297A.25(o), mill liners, grinding rods, and grinding balls which are substantially consumed in the production of taconite, the material of which primarily is added to and becomes a part of the material being processed, are specifically exempted from sales and use tax. These are items subjected to both extreme wear and high cost.

The one other exemption specifically granted to the taconite industry was for the express purpose of encouraging investment and plant expansion in the State of Minnesota. As provided by M.S. 297A.251, supplies and equipment used in the construction of new or expanded taconite facilities begun prior to February 1, 1975 and used or incorporated in the plant prior to July 1, 1978, were exempt from tax. A minimum increase in productive capacity of at least 10 percent was required to qualify. This exemption was one of the factors encouraging new plant investment in Minnesota.

The Minerals Tax Division has the responsibility of insuring compliance by the iron ore industry with the Sales and Use Tax Law. In the interest of better administrative control, the Revenue Department does authorize Direct Pay Permits to any concern which supports extensive and varied purchase inventories. Every taconite company has elected this system of self-assessment of use tax on taxable purchases. To insure the integrity of the various systems of self-assessment, the Minerals Tax Division utilizes auditing and monitoring procedures for each company on a continuous basis.

A review of the sales/use tax revenue generated annually by the iron ore industry clearly establishes that the totals are substantial amounts, and are of major ranking of all tax revenues paid by the mining industry:

1975	\$ 7,214,111
1976	7,446,168
1977	7,375,115
1978	8,573,835
1979	12,590,481
1980	9,981,715
1981	9,840,381
1982 (6 mos.)	5,833,749

Sales Tax Rate History

August 1, 1967	3%
July 1, 1974	4%
July 1, 1981	5%
*January 1, 1983	6%

* At the time this Mining Tax Guide was published, the six percent tax was scheduled to expire and return to five percent effective July 1, 1983.

TAX ON SEVERED MINERAL INTERESTS

Severed mineral interests are subject to local property taxation and constitute Class 1B. Severed mineral interests are taxed at a rate of \$.25 per acre with an undivided interest tax calculated at 25-cents-per-acre 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 \$2.00 per tract. No tax is due on mineral interests taxed under other laws (unmined taconite or iron ore) or mineral interests which are exempt from taxation pursuant to constitutional or statutory provisions.

The taxes received are apportioned to the taxing districts in the same proportion as the surface interest mill rate of the taxing district is to the total surface interest mill rates in the area taxed. Twenty percent of the revenues from this tax are remitted to the state treasurer and deposited in the general fund in two special accounts: Reservation Residents Loan Accounts and Non-reservation Residents Account. Loans may be made for the purpose of starting a business or expanding an existing business. The amount to be credited to each reservations loan account shall be the same percentage as the number of Indians living on each reservation is to all Indians living in Minnesota.

Both the registration and the tax were contested in the courts in the case of Contos vs. Herbst. In its decision, the Minnesota Supreme Court held that the tax is valid and that an ad valorem tax need not be related directly to value and that forfeiture for unpaid tax is valid. The court, however, held invalid the forfeiture for failure to register.

This issue was addressed by the Minnesota Legislature in 1979, Chapter 303, Article X. However, the question as to whether the 1979 amendment satisfies the Supreme Court's due process requirement has not been answered in the courts.

TAXES ON COPPER-NICKEL MINING

Significant exploration activity with regard to copper and nickel minerals in northern Minnesota began in the early 1950's. This activity centered primarily around the geologic formation known as the Duluth Gabbro. Although there has been no commercial production to date, several interesting mineralized areas have been discovered.

Discussion of what would be an appropriate tax policy toward copper-nickel development continues in the legislature and among several state agencies and interested private organizations. Currently, interest is centered on a deposit controlled by Amax Company near Babbitt, Minnesota. Environmental and economic feasibility studies have been conducted. However, it appears that development is at least several years away.

The following taxes currently in effect will apply to copper-nickel mining:

<u>TYPE OF TAX</u>	<u>DESCRIPTION</u>
Corporate Income Tax	Same as other corporations, less credit for occupation tax paid
Occupation Tax	Based on one percent of net value of ore
Production Tax	Based on crude ore production
Property Tax	Applies to smelter and to surface interests of reserve lands
Royalty Tax	One percent of royalty paid
Sales Tax	Same as other corporations

A somewhat more detailed explanation of the production and occupation taxes is useful.

PRODUCTION TAX

The base production tax is 2.5-cents per gross ton of crude ore plus 10 percent for each one-tenth of one percent that the average copper-nickel content exceeds one percent when dried at 212°F. This total is then subject to an increase proportional to the monthly average wholesale price index for all commodities for the taxable year in which the concentrate is produced compared with the 1967 index.

It should be emphasized that the production tax on copper-nickel ore applies per short ton (2,000 lbs.) of crude ore, while the taconite production tax applies per long ton (2,240 lbs.) of pellets. The copper-nickel would be applied against a much larger base than taconite because of this difference. Revenue from this tax is to be distributed in the same manner as specified for the taconite production tax in the laws of 1965.

OCCUPATION TAX

The current rate of occupation tax is one percent of the value of the ore. This value is obtained in a similar manner to values used for taconite occupation tax. Two special credits are allowable. One is for converting the copper-nickel ore into a refined or semi-refined metal within the State of Minnesota. This credit is in the amount of two-thirds of one percent.

The second credit, which is less significant, is for research, experimentation, and exploration. The total occupation tax is allowable as a credit against the corporate income tax. Thus, there is a definite "overlap" of occupation tax and corporate income tax.

The proceeds of the occupation tax are to be distributed 50 percent to the general fund; 40 percent for the support of elementary and secondary schools, and 10 percent for the general support of the University.

ROYALTY TAX

The present royalty tax is one percent of the royalties paid on copper-nickel leases, plus an additional one percent of the amount paid on gold, silver, platinum and other precious metals. A summary of taxes paid on copper-nickel and other mineral lease royalties is included in the section on Royalty Taxes.

TABLE 13 -- ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

AD VALOREM TAX

<u>January - June</u>	---	Estimates submitted by companies.
<u>September 15</u>	---	Present Worth estimates mailed to companies.
<u>October</u>	---	Hearing on ad valorem mineral taxes held first secular day after October 10.
<u>November 1</u>	---	Final adjustments to property equalization sheets to county assessors.

OCCUPATION TAX

<u>March 1</u>	---	(Postmark) Tax report due from companies.
<u>May 1</u>	---	Tentative determination of tax mailed by the Division.
<u>May 15</u>	---	Evidence to support disagreement due in Division office.
<u>June 1</u>	---	Final determination mailed to companies.
<u>June 15</u>	---	Full tax payment due in Division office.
<u>December 31</u>	---	Tax forms mailed to companies.

RAILROAD GROSS EARNINGS TAX

<u>March 1</u>	---	Report and payment due in Division office for July - December of previous year.
<u>September 1</u>	---	Report and payment due in Division office for January - June of current year.

ROYALTY TAX (RENTS)

- February 1 --- Annual Royalty Paid Report by companies due in Division office.
- Annual Royalty Received Report from recipients due in Division office.
- Quarterly royalty checks and reports from companies usually received in January, April, July and October.
- December 30 --- Royalty report forms mailed to companies.

SALES AND USE TAX

Monthly reports due from companies in Division office on the 25th of the month following.

TACONITE PRODUCTION TAX

- February 15 --- Ninety percent of the tax as estimated from the October 10 taconite production estimate is due in the Division office.
- February 25 --- Complete distribution of tax to taxing units.
- March 15 --- Final 10 percent tax figure with adjustments mailed to companies.
- April 15 --- Final payment due in Division office.
- May 15 --- Final aid payments made to taxing districts.
- July 15 --- School Fund Indexed distribution made by Division.
- Finalize calculations for Taconite Municipal Aid accounts.
- September 15 --- Taconite Municipal Aid account funds distributed.
- October 10 --- Taconite production estimates due from companies.

UNMINED TACONITE TAX

April 1

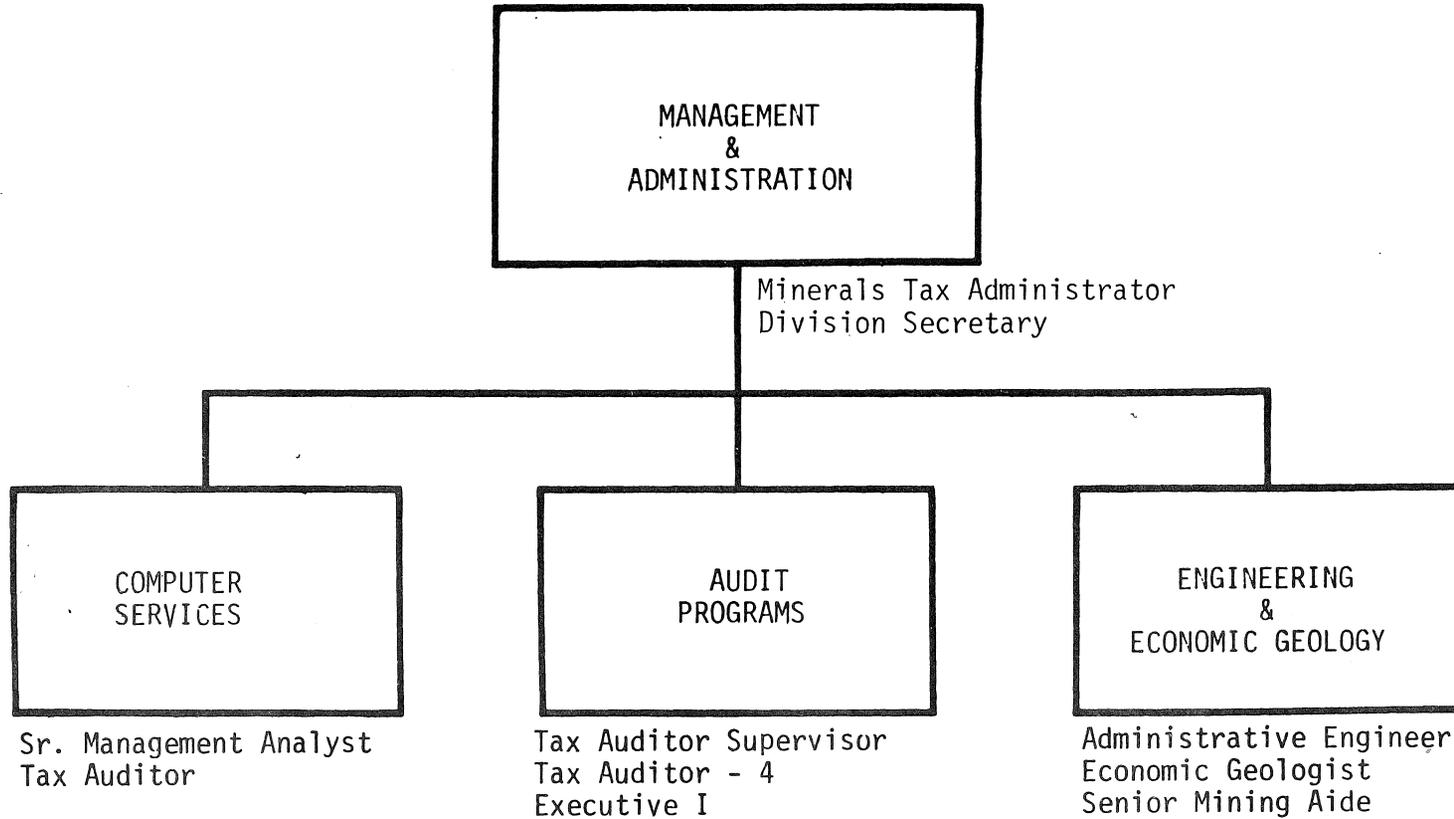
--- Owner or leasee of mineral rights submits specified data on drill hole logs and lab tests for previous year.

December 1

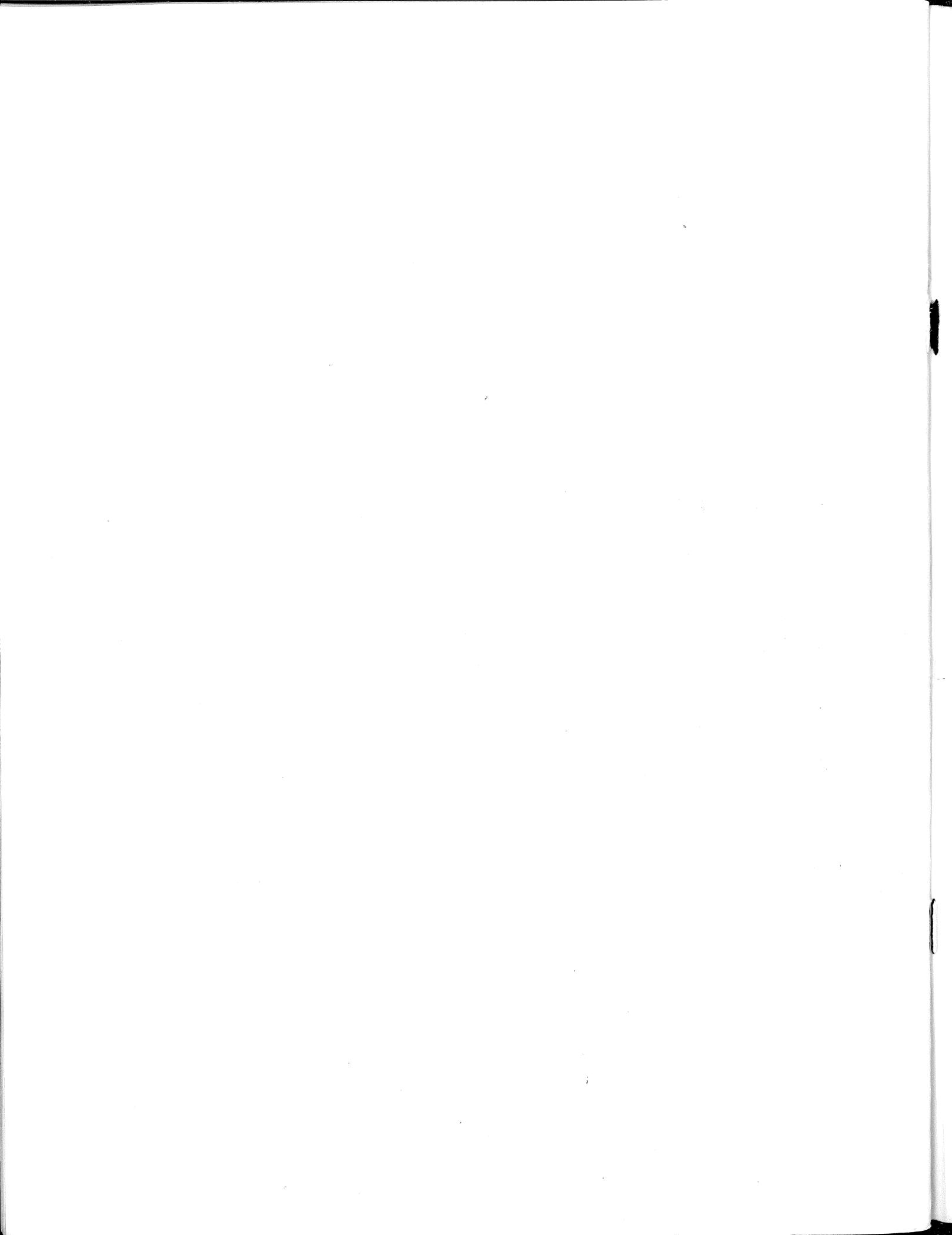
--- Division submits reports to county assessors.

MINNESOTA DEPARTMENT OF REVENUE

Minerals Tax Division



This report is the result of the valuable contributions of these individuals in the Minerals Tax Division: Thomas Schmucker, Donald Walsh, Sandy Gorrill, William Betzler, Norma Brusacoram, Mary Jo Grahek, Larry Ring, John Rioux, Steve Underhill.



MINNESOTA'S IRON MINING AREA

