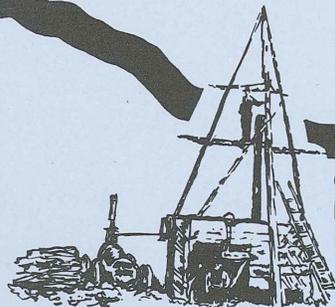


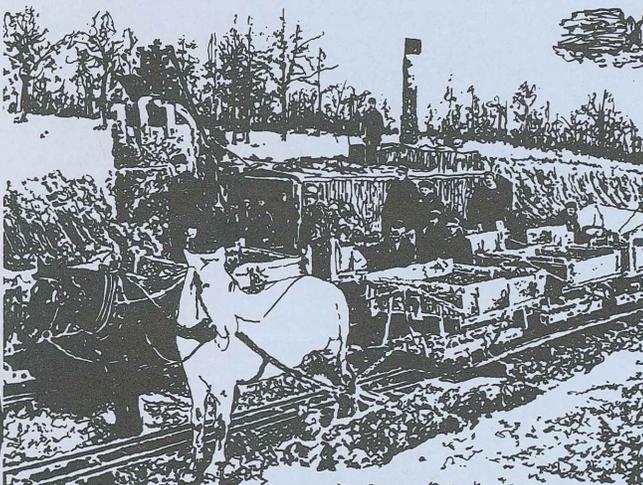
MINNESOTA MINING TAX GUIDE

1884 – 1984

Minnesota's Iron Mining Centennial



Original Longyear Drillsite



1900 era rail mounted steam shovel



Modern taconite plant

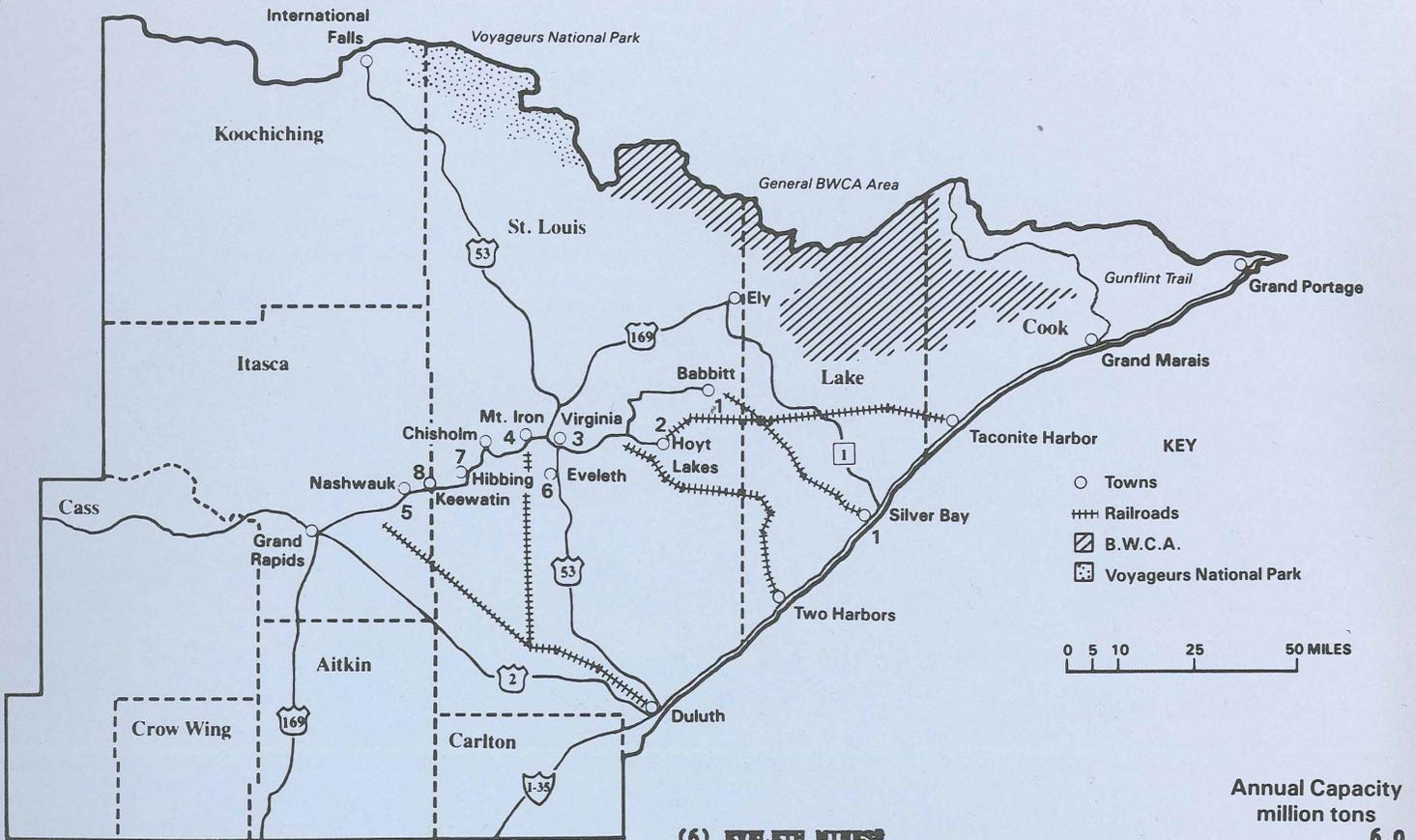
Department of Revenue
Minerals Tax Division

612 Pierce Street
Eveleth, MN 55734
(218) 744-5364
Northstar Network 116-223

December 1984

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Annual Capacity million tons		Annual Capacity million tons
(1) RESERVE MINING COMPANY No Managing Agent Owners: Armco, Inc. (50%) LTV Steel (50%)	9.6	(6) EVELETH MINES² Oglebay-Norton Co., Managing Agent Owners: Eveleth Taconite Co., 2.3 million tons Rouge Steel Co. (Ford) (85%) (31.7%) Oglebay-Norton Co. (15%) (18.4%) Eveleth Expansion Co., 3.7 million tons Armco, Inc. (56%) (35.1%) Stelco, Inc. (23.5%) (14.8%) Oglebay-Norton Co. (20.5%) (see above)	6.0
(2) ERIE MINING COMPANY Pickands Mather & Co., Managing Agent Owners: Bethlehem Steel Co. (45%) LTV Steel (35%) Interlake, Inc. (10%) The Steel Company of Canada, LTD. (10%)	11.0	(7) HIBBING TACONITE Owners: Bethlehem Steel Co. (62.3%) Pickands Mather & Co. (15%) LTV Steel (16%) The Steel Company of Canada, LTD. (6.7%)	8.1
(3) MIRONCA PLANT No Managing Agent Owner: Inland Steel Mining Co. (100%)	2.6	(8) NATIONAL STEEL PELLETT COMPANY The Hanna Mining Co., Managing Agent Owner: National Steel Corp. (50%) Nippon Kokan KK (50%)	4.0
(4) MINNETAC PLANT No Managing Agent Owner: United States Steel Corp. (100%)	18.5	<p>• The second percentage denotes the percent of ownership of the total company.</p> <p>In June, 1984, the Justice Department approved the purchase of half of National Steel Corporation by Nippon Kokan Kabushiki Kaisha, the second largest steelmaker in Japan.</p>	
(5) BUTLER TACONITE² The Hanna Mining Co., Managing Agent Owners: Inland Steel Mining Co. (38%) Itasca Pellet Co. (62%) Itasca Pellet Ownership: The Hanna Mining Co. (60.5%) (37.5%) Wheeling-Pittsburgh Steel (39.5%) (24.5%)	2.65		

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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 previous publications entitled "Minnesota Mining Tax Guide," dated December 1982 and December 1983.

The original Minnesota Mining Tax Guide was published by the Department of Revenue Research Office in April 1977 and revised in July 1978.

This year's book, as noted on the cover, is to commemorate the centennial year of iron mining in Minnesota. A special note of thanks for some of the historical pictures go to the Iron Range Historical Society, Gilbert; Iron Range Research Center, Chisholm; the Hibbing Historical Society, Hibbing, and the booklet, Minnesota's Iron Mining Industry, published by the Iron Mining Industry of Minnesota.

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THE IRON ORE AND TACONITE MINING INDUSTRY IN MINNESOTA

The iron ore mining industry in Minnesota is 100 years old and is found exclusively in the northeastern part of the state. (See map inside front cover).

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.

Many of the early iron ore mining operations were underground. By 1900, Minnesota's mining industry had an annual production of 9,465,000 tons. The large deposits were soon converted to open pit mines using rail mounted steam shovels (cover) and rail hauls from the open pit operations. This equipment was 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	45,280	4.9	95.1
1981	51,033	3.3	96.7
1982	24,234	3.3	96.7
1983	26,024	3.3	96.7
1984 (est.)	36,200	2.2	97.8

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 through 1981. Beginning in 1982, Minnesota's share fell to just over three percent and it appears this new lower level may become permanent.

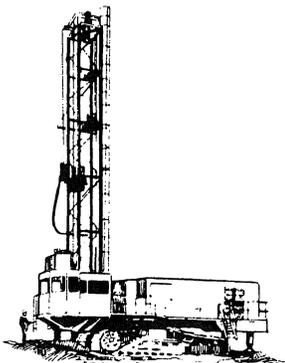
TABLE 2
MINNESOTA'S SHARE OF U. S. AND WORLD
PRODUCTION OF IRON ORE

<u>Year</u>	<u>Minnesota¹ Production Tons (000's)</u>	<u>Minn. %U.S.</u>	<u>U.S.² Production Tons (000's)</u>	<u>Minn. %World</u>	<u>World² 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	757
1975	51,036	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	828
1978	55,450	68.0	81,583	6.6	833
1979	59,563	69.5	85,716	6.6	898
1980	45,281	65.0	69,613	5.1	884
1981	51,033	69.7	73,174	6.0	843
1982	24,234	68.4	35,433	3.1	783
1983	26,024	68.4	38,000*	3.5	739*

*Preliminary figures

Source of Information:

- 1) Minnesota Occupation Tax Reports
- 2) American Iron Ore Association



DRILLING

TABLE 3

SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY (TACONITE AND IRON ORE)

BASED ON THE PRODUCTION OR CALENDAR YEAR

(000's)

<u>TAX</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 est.</u>
Ad Valorem - Unmined Natural Ore (Yr. assessed)	\$ 4,560	\$ 3,689	\$ 3,770	\$ 3,545	\$ 3,700	\$ 3,600
Occupation	23,993	14,808*	13,940*	4,066*	7,885*	10,000*
Taconite Production	30,347	87,179	99,078	80,305	67,341	73,805**
Railroad Gross Earnings	3,072	2,984	4,961	1,354	926	1,000
Royalty	3,655	5,333	5,822	4,712	3,266	4,000
Unmined Taconite (Yr. assessed)	64	232	240	285	331	335
Sales & Use (Tac. only)	<u>7,214</u>	<u>9,982</u>	<u>9,799</u>	<u>7,828</u>	<u>5,765</u>	<u>5,850</u>
TOTAL:	\$ 72,905	\$ 124,207	\$ 137,610	\$ 104,948	\$ 89,214	\$ 98,590
TONS PRODUCED:	51,036	45,280	51,033	24,234	26,024	36,200
TOTAL TAXES PAID ON PER TON BASE:	1.429	2.743	2.696	4.330	3.428	2.723

* These numbers reflect taconite occupation tax liability prior to M.S. 298.40 credits.

** Actual amount collected estimated to be \$64.16 million. A \$6.93 million credit will be allowed due to Minnesota Supreme Court Decision on production tax court cases. Also, a \$2.72 million credit will be given to the Erie Mining Company as a result of tonnage corrections for the 1978-1983 production years.

TABLE 4
MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

<u>Production Year</u>	<u>Unmined Taconite</u>	<u>Sales and Use^a</u>	<u>Production</u>	<u>Occupation^a</u>	<u>Royalty</u>	<u>Excise(1)</u>	<u>Railroad Gross Earnings^a</u>	<u>Total Taxes</u>	<u>Total Tons Produced</u>	<u>Total Taxes Per Ton</u>
1960	--	--	735,708	638,489	1,280,553	1,741,820	815,952	5,212,522	13,383,000	.39
1965	--	--	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	.32
1970	64,000	Not Avail.	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
1976	--	7,446,168	30,857,046	18,269,842	2,841,120	188,325	3,338,487	62,940,988	40,574,591	1.55
1977	--	7,375,115	48,757,124	3,190,408	2,626,141	182,745	1,509,773	63,641,306	26,371,588	2.41
1978	--	8,573,833	69,221,559	19,226,372	3,279,861	177,165	3,267,247	103,746,037	49,544,671	2.09
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39

(1) Special School and Village Taxes

^a Sales & Use Tax, Occupation Tax and Railroad Gross Earnings Tax have been used to reduce credits owed to the taconite companies as the result of the tax limitation imposed by the Taconite Amendment and M.S. 298.40. As a result, the actual collections of these taxes was significantly less than the amounts shown on this schedule.

For the exact amounts of tax not collected, (1) due to the M.S. 298.40 limitation and, (2) to offset credits owed to taconite companies as a result of M.S. 298.40 and the Taconite Amendment, refer to the Occupation Tax section.

TACONITE PRODUCTION TAX

Taconite and semi-taconite are generally exempt from the ad valorem tax but have been taxed under a production tax which is "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, but through preliminary work by the Mesabi Iron Company and from research by E. W. Davis the development of taconite was greatly assisted. In 1941, the legislature imposed a production tax on taconite and semi-taconite that was at the rate of 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 shared equally by the state, the counties, the school districts, and the cities and townships at 25 percent each.

At the time of the passage of this Act, no taconite operations existed, and only one--Reserve Mining Company--appeared on the horizon. However, since the inception of the 1941 law, taconite production has increased substantially. The industry continued to grow and reached its present size of eight taconite companies in the mid-seventies. As production increased, major changes were made in the rate of the production tax and in the distribution.

The last major change in the production tax prior to the 1984 legislative session was made by the 1977 legislature. The changes made by the 1984 legislature will take effect for taxes paid and aid distributed during 1985. Details of the 1977 law are contained in last year's Minnesota Mining Tax Guide (dated December 1983).

On January 9, 1984, the Minnesota Supreme Court released its decision on the so-called "Erie II" case in which the mining industry had contested the constitutionality of the taconite production tax. Although the State was upheld on most issues, the court ruled that the price index must be averaged when a three-year average of production tonnage was used. This change resulted in a credit to the industry of \$17.9 million principal and \$5.5 million interest. The credit will be paid back by not collecting an agreed upon amount of future production tax for each of the next five years--as specified in an "Agreement of Settlement" negotiated by a special legislative committee and the taconite industry, and formalized by court order.

The "Agreement of Settlement" contained the following provisions for computing the production tax:

- A) The rate of production tax applicable to concentrates produced in taxable years 1985 and 1986 shall not exceed the rate determined under existing law for 1984 production.
- B) The production tax rate applicable to concentrates produced in 1987 shall be equal to the preceding year's tax rate, escalated by reference to the implicit price deflator (prepared by the Bureau of Economic Analyses of the United States Department of Commerce) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year.

- C) Escalation of the tax rate by reference to iron content, as currently provided in M.S. 298.24, Subd. 1(b), is to be reduced as applied to concentrates produced in 1984 by one-half of the rate currently provided, and totally eliminated as to concentrates produced in 1985, 1986 and thereafter.
- D) The averaging provision as set forth in M.S. 298.24, Subd. 1(c), in the current law shall be modified as follows:
1. There shall be no averaging applied in computing production tax liabilities for taxable year 1984.
 2. The tax on concentrates produced in 1985 shall be computed on the average of the production for 1984 and 1985.
 3. The tax on concentrates produced in 1986 and thereafter shall be computed on the average production for the current year and the previous two years.

The average production tax rate for 1983 was \$2.05 per taxable ton after the price index escalation of 1.5530953 and the iron content escalation were applied. This is a slight drop from the \$2.08 average of 1982. The rate for the 1984 production year is forecast to be about \$2.11 due to an increase in the steel mill products index to 1.6394035.

Several major changes were made in the production tax distribution formula by the 1984 legislature for aids to be distributed in 1985. Perhaps the most significant change was that the old M.S. 298.225 aid guarantee formula was modified with a "shared risk" concept. When total production reaches 42 million tons, aid distributions are guaranteed at 100 percent of the amounts received in 1984 based on 1983 production. When production falls below 42 million tons, aid distributions are reduced proportionately at the rate of two percent for each million tons of production decline. This change protects communities which might be affected by long-term plant closures by distributing the risk Range-wide, while at the same time preserves some funding for the Northeast Minnesota Economic Protection Fund and the Taconite Environmental Protection Fund. Also, communities with a taconite plant which operated at a reduced level without shutting down did not have any aid guarantee under the old M.S. 298.225 formula.

An additional 1.5-cents-per-ton was allocated to the Economic Fund. Funding for Taconite Property Tax Relief was reduced from 25.75-cents-per-ton to 17.75-cents-per-ton. However, the order of computation of the taconite homestead credit was changed (the state homestead credit is now subtracted first on the property tax statement), thus reducing the total aid requirement for the Taconite Property Tax Relief fund. The total taconite property tax relief paid is expected to be in balance with available funding when the new formula is used.

The proceeds of the 1983 taconite production tax (payable 1984) are distributed by statute as follows (all figures are cents per taxable ton):

M.S. 298.28, Subdivision 1.

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

*These base year amounts were increased in 1979 and subsequent years by the rate of growth in the steel mill products index (base year 1977). For the 1983 production year, the county was 24.1-cents and road and bridge was 6.2-cents with escalation. The actual amount received by the county (35.5-cents) and other funds per taxable ton was greater due to M.S. 298.225 aid guarantees.

**This base year amount were increased in 1981 and subsequent years (base year 1977). For the 1983 production year, the IRRRB was 4.7-cents with escalation.

1. TACONITE CITIES AND TOWNS

Each city or township in which mining and/or concentrating occurs (split 40 and 60 percent to each respectively) receives an equitable portion of the mining aid and/or concentrating aid. This split is determined either by a percentage of taconite reserves or a four-year average of production.

2. TACONITE MUNICIPAL AID ACCOUNT

The taconite Municipal Aid 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 remainder is then distributed to the cities and townships in the taconite relief area in direct proportion to the latest federal population census. The conditions necessary for a municipality to qualify for municipal aid are identical to the qualifications for the 66% taconite property relief listed under part (5)a of the Production Tax section of this Mining Tax Guide. The statutory references governing Municipal Aid are M.S. 273.134 (qualifying municipalities), M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282.

3a. SCHOOL DISTRICT \$.06 FUND

Each school district in which mining and/or concentrating occurs (split 40 and 60 percent to each respectively) receives an equitable portion of the mining aid and/or concentrating aid. This split is determined either by a percentage of taconite reserves or a four-year average of production.

b. SCHOOL \$.23 FUND

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).

c. SCHOOL FUND INDEX

The School Fund Index is the escalated portion of the 23-cent school fund using the steel mill products index escalation factor. Payments were first made from this fund in 1982 and are made on July 15 of each year. Taconite school districts qualify for an additional \$150 per pupil unit over and above state aids by passing a two mill levy referendum. The school district will then receive additional taconite aid in the amount of \$150 per pupil unit less the amount raised locally by the two mills.

4a. TACONITE COUNTIES

Each county receives a portion of the aid in the same manner as 1 - Taconite Cities and Towns, less any amount distributed under 4b.

b. 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 (currently only Erie--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).

c. TACONITE COUNTIES ROAD/BRIDGE

Each county receives a portion of the aid in the same manner as 1 - Taconite Cities and Towns, to be deposited in the county road and bridge fund.

5a. TACONITE PROPERTY TAX RELIEF

A total of \$.25 per ton escalated by the steel mill products index is allocated to the Taconite Property Tax Relief Account. 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 Iron Range. The properties that receive this credit are owner-occupied homes and owner-occupied farms.

The tax on all of 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 which contained at least 40 percent of its valuation as iron ore on May 1, 1941 (but does not exceed 60 percent) or currently has a taconite mine, plant or electric generating facility, the taconite credit is 66 percent of the tax on that property. For taxes payable in 1984, the maximum credit is \$475. Under current law, the credit increases \$15 per year, which will make a maximum credit of \$490 for taxes payable in 1985. 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 on the property to a maximum credit of \$420 for taxes payable in 1984. For taxes payable in 1985, the \$420 maximum for this property will increase by \$15 to \$435.

Most of the other property tax credits that a property may be eligible to receive are deducted from the gross tax on the property before the Taconite Homestead Credit is determined. An example of this deduction is the Agricultural Credit which also reduces the tax on farm property. The 54 percent state homestead credit is now deducted prior to determining the Taconite Homestead Credit. The maximum credit under the 54 percent state-paid homestead credit is \$650 for taxes payable in 1984.

The statutory references governing taconite property tax relief are contained in M.S. 273.134, M.S. 273.135, and M.S. 298.28, Subd. 1, Clause (5). This credit is guaranteed by the N.E. Minnesota Economic Protection Fund as stated in M.S. 298.293.

b. ELECTRIC POWER PLANT

For any electric power plant located in another county (as described in 4b) .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. (Only Erie Mining Company and Cook County are affected).

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. Beginning with the 1982 production year, a \$240,000 payment is made by the Department of Revenue to School District 710 for payment of school bonds. An amount equal to four-cents-per-ton of Eveleth Mines production is subtracted from money otherwise payable to the Northeast Minnesota Economic Protection Fund. Any remaining amount required to equal \$240,000 shall be paid as provided by M.S. 298.225.
4. 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.
5. 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. These credits are for bond payments made by the companies and are not collected or distributed by the Department of Revenue.

M.S. 298.225 - If aid payments provided in M.S. 298.28, Subd. 1, Clauses (1) to (4) and 5(b) to 8 are reduced due to a plant shutdown, the level of aid received from the last full year of production prior to shutdown is guaranteed for two years following the year of shutdown. This aid guarantee is funded equally by the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The aid payments covered by this guarantee are listed as follows:

1. 2.5-cents City and Town Fund
2. 12.3-cents Taconite Municipal Aid
3. a) 23-cents School Fund
b) 6-cents School District Fund
c) School Fund Index
4. a) 15.5-cents Taconite County Fund
b) 4-cents Taconite County Road and Bridge Fund
5. a) Taconite Property Tax Relief is not covered by M.S. 298.225, but guaranteed separately by the Economic Fund as stated in M.S. 298.293
b) .75-cents Electric Power Plant Fund (Erie-Cook County)
6. 1-cent State for Administration
7. 3-cents Escalated to I.R.R.R.B.
8. .2-cents R.A.M.S.

Note: The above formula does not apply after the 1983 production year. (See page 6).

TABLE 5
AVERAGE DISTRIBUTION OF THE PRODUCTION TAX
(CENTS-PER-TON)

1984 DISTRIBUTION (1983 PRODUCTION YEAR)
BASED ON 33,302,198 TAXABLE TONS

<u>Aid Recipient</u>	<u>Cents Per Taxable Ton</u>
Taconite Cities and Towns	4.1
Taconite Municipal Aid	20.1
School Districts	59.3*
County	35.5
County Road and Bridge	9.1
Taconite Property Tax Relief	39.8
State of Minnesota	1.6
I.R.R.R.B.	10.3
R.A.M.S.	.3
Taconite Railroad Grand- father Amount	9.5
Taconite Environmental Protection Fund	18.1
N.E. Minnesota Economic Protection Fund	(6.2)
School Bond Credits & Payment	<u>3.2</u>
	204.7

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



BLASTING

TABLE 6 -- SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

<u>PRODUCTION YEAR:</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
City & Township	\$ 936,388	\$ 1,353,460	\$ 1,382,071	\$ 1,361,734	\$ 1,362,133
Taconite Municipal Aid	3,399,588	6,810,913	6,776,025	6,701,700	6,701,700
School District - Regular	10,396,319	3,304,789	3,383,849	3,336,407	3,336,709
School District Fund	-0-	12,735,853	12,670,617 ^a	12,531,638 ^a	12,531,638
School District Fund Index	-0-	-0-	4,198,133	3,866,675	3,867,247
County	3,771,167	10,809,240	11,891,939	11,756,167	11,814,390
County Road & Bridge	591,524	2,784,744	3,056,888	3,028,085	3,043,061
Taconite Property Tax Relief	8,688,442	17,351,585	19,317,006 ^a	15,684,072 ^a	13,261,767
State	240,363	480,280	550,897	544,853	544,853
I.R.R.R.B. (\$.03 Indexed)	1,073,275	2,001,839	2,265,289	2,150,722	2,161,750
Range Association of Municipalities & Schools	-0-	110,747	110,181	108,972	108,972
Taconite Railroad (Fixed)	-0-	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	-0-	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	-0-	-0-	-0-	240,000	240,000
Filtration Fund	1,250,000	-0-	-0-	-0-	-0-
Taconite Environmental Protection Fund	-0-	15,663,492	19,736,911	11,785,651	6,029,799
N.E. Minnesota Economic Protection Fund	-0-	<u>9,358,171</u>	<u>9,265,064</u>	<u>2,793,123</u>	<u>(2,076,400)</u>
TOTAL:	\$30,347,066	\$87,178,532	\$99,018,289	\$80,303,218	\$67,341,038^b

*The production tax is collected and distributed in the year following production, e.g., the 1983 production tax was collected and distributed during 1984.

a) Actual distribution payments differ due to overpayments made from the School District Fund from the 1981 production year.

b) Total after school bond credits have been taken.

TABLE 7 -- TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1984*

<u>Cities & Townships</u>	<u>Mining & Concentrating</u>	<u>Taconite¹ Railroad</u>	<u>Taconite Municipal Aid</u>	<u>Total</u>
Aurora	\$ 2,742	\$	\$ 175,195	\$ 177,937
Babbitt	111,509	166,767	217,868	496,144
Biwabik			92,070	92,070
Bovey			52,418	52,418
Buhl			82,786	82,786
Calumet			30,239	30,239
Chisholm			382,335	382,335
Coleraine			71,954	71,954
Crosby			143,005	143,005
Ely			310,768	310,768
Eveleth	50,766		328,608	379,374
Franklin	4,186		1,741	5,927
Gilbert			177,042	177,042
Hibbing	294,252		1,392,160	1,686,412
Hoyt Lakes	186,080	152,153	298,312	636,545
Ironton			34,623	34,623
Keewatin	24,501		101,363	125,864
Kinney	6,023		28,820	34,843
Leonidas	3,416		6,125	9,541
Marble			48,807	48,807
McKinley			14,829	14,829
Mountain Iron	343,297		412,208	755,505
Nashwauk	14,908		99,569	114,477
Riverton			7,221	7,221
Silver Bay	107,204	152,706	246,052	505,962
Taconite			21,341	21,341
Trommold			5,416	5,416
Virginia	20,531		715,674	736,205
Balkan Township			60,219	60,219
Bass Brook Township			120,632	120,632
Bassett Township		11,745	---	11,745
Beaver Bay Township		12,565	---	12,565
Biwabik Township			66,667	66,667
Breitung Township			60,155	60,155
Crystal Bay Township		6,951		6,951
Fayal Township	3,948		140,233	144,181
Grand Rapids Township			204,965	204,965
Great Scott Township	9,895		40,021	49,916
Greenway Township	18,986		82,044	101,030
Irondale Township			53,965	53,965
Lone Pine Township	6,220		2,820	9,040
McDavitt Township	68,120		43,960	112,080
Nashwauk Township	17,281		60,723	78,004
Rabbitt Lake Township			11,863	11,863
Schroeder Township		47,700	20,954	68,654
Silver Creek Township		20,612	---	20,612
Stony River Township		19,943	---	19,943
White Township	28,401		174,291	202,692
Wuori Township	39,867		48,356	88,223
Wolford Township			11,283	11,283
TOTALS:	\$ 1,362,133	\$ 591,142	\$ 6,701,700	\$8,654,975

* All distributions in 1984 result from 1983 production year tax revenues.

1) Taconite railroad aids are a fixed amount paid from current production tax revenues based on 1977 Taconite Railroad Gross Earnings Tax distributions.

TABLE 8 -- TACONITE PRODUCTION TAX DISTRIBUTION TO COUNTIES - 1984*

<u>County</u>	<u>Regular County 15.5-cents Escalated</u>	<u>County Road & Bridge 4-cents Escalated</u>	<u>Taconite Railroad</u>	<u>Total</u>
Cook	\$ 120,464	\$ --	\$187,190	\$ 307,654
Itasca	622,934	160,757	--	783,691
Lake	968,918	250,043	243,034	1,461,995
St. Louis	<u>10,102,074</u>	<u>2,632,261</u>	<u>354,153</u>	<u>13,088,488</u>
TOTAL:	\$11,814,390	\$3,043,061	\$784,377	\$15,641,828

*Distribution in calendar year 1984 is based on 1983 production year.

TABLE 9 -- TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS - 1984*

<u>School Districts</u>	<u>\$.06</u>	<u>\$.23</u>	<u>Taconite Railroad</u>	<u>School Fund Index</u>	<u>Total</u>
1 - Aitkin	\$ --	\$ 818,834	\$ --	\$ 140,542	\$ 959,376
166 - Cook County	67,586 ¹	340,383	427,383	55,890	891,242
182 - Crosby - Ironton	--	671,310	--	160,130	831,440
316 - Coleraine	103,948	564,908	--	256,122	924,978
318 - Grand Rapids	--	2,561,279	--	392,064	2,953,343
319 - Nashwauk - Keewatin ^{2,3}	169,898	308,433	--	121,616	599,947
381 - Lake Superior	257,290	738,281	552,774	378,052	1,926,397
691 - Aurora - Hoyt Lakes	452,936	504,452	345,802	237,430	1,540,620
692 - Babbitt ⁴	267,856	195,520	459,421	155,132	1,077,929
693 - Biwabik	68,164	275,188	--	47,523	390,875
694 - Buhl	38,203	155,202	--	70,666	264,071
695 - Chisholm	--	362,787	--	176,044	538,831
696 - Ely	--	335,450	--	130,105	465,555
697 - Eveleth	139,513	328,410	--	200,993	668,916
699 - Gilbert	--	194,557	--	94,856	289,413
701 - Hibbing	628,912	1,230,247	--	505,990	2,365,149
703 - Mt. Iron ⁵	823,913	457,126	--	111,303	1,392,342
706 - Virginia	155,002	851,629	--	256,738	1,263,369
708 - Tower - Soudan	--	365,261	--	42,114	407,375
710 - St. Louis County ⁶	<u>163,488</u>	<u>1,272,381</u>	<u>--</u>	<u>333,937</u>	<u>1,769,806</u>
	\$3,336,709	\$12,531,638	\$1,785,380	\$3,867,247	\$21,520,974

* - Distribution in calendar year 1984 is based on 1983 production year.

- 1) - Erie Power Plant distribution
- 2) - Butler Taconite received school bond credit of \$41,706 for school bond payment.
- 3) - National Steel received school bond credit of \$101,123 for school bond payment.
- 4) - Reserve Mining received school bond credit of \$135,323 for school bond payment.
- 5) - U. S. Steel received school bond credit of \$545,931 for school bond payment.
- 6) - S.D. 710 received school bond payment of \$240,000 from Commissioner of Revenue.

TABLE 10 -- TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1983

<u>Firm</u>	<u>Production Tons</u>	<u>Taxable Tonnage¹</u>	<u>Tax Rate²</u>	<u>Production Tax Revenue³</u>
Butler	1,556,523	1,597,427	\$2.0612681	\$ 3,251,019
Erie	2,045,065	4,851,778	2.0255469	9,827,504
Eveleth	3,265,821	4,585,647	2.0373504	9,342,570
Hibbing	4,205,470	5,678,259	2.0637530	11,718,524
Inland	2,136,155	2,136,155	2.0712079	4,424,421
National	3,270,837	3,270,837	2.0600256	6,636,885
Reserve	985,318	3,383,079	2.0476008	6,791,872
U. S. Steel	<u>7,708,073</u>	<u>7,799,016</u>	<u>2.0379717</u>	<u>15,348,243</u>
TOTAL:	25,173,262	33,302,198	\$2.0468655	\$ 67,341,038

ESTIMATED FOR PRODUCTION YEAR 1984

<u>Firm</u>	<u>Production Tons</u>	<u>Taxable Tonnage¹</u>	<u>Tax Rate²</u>	<u>Production Tax Revenue⁴</u>
Butler	2,000,000	2,000,000	\$2.1122075	\$ 3,935,328
Erie ⁵	5,000,000	5,000,000	2.1049941	6,679,741
Eveleth	3,800,000	3,800,000	2.1033547	7,668,587
Hibbing	6,000,000	6,000,000	2.1143387	12,288,725
Inland	2,000,000	2,000,000	2.1177814	4,005,461
National	4,500,000	4,500,000	2.1110599	8,728,540
Reserve	3,600,000	3,600,000	2.1025350	5,994,994
U. S. Steel	<u>8,500,000</u>	<u>8,500,000</u>	<u>2.1049941</u>	<u>14,861,903</u>
TOTAL:	35,400,000	35,400,000	\$2.1081603	\$ 64,163,279

- 1) Taxable tonnage is the larger of the actual production year or the average production for the last three years (due to a 1984 court settlement, the 1984 taxable tonnage will be the actual production tonnage for 1984).
- 2) The base rate of \$1.25 per ton is adjusted for any increase in the steel mill products index over the 1977 base. The steel mill products index escalation factor for the 1983 production year was 1.5530953 and is estimated to be 1.6394035 for 1984. An additional tax is imposed on each firm based on the iron content of the pellets produced by the firm (this additional tax will be reduced by 50 percent for the 1984 production year and eliminated for 1985 and subsequent production years). (This is the tax rate before any credits are allowed).
- 3) Production tax revenue after school bond credits have been taken by the appropriate firms.
- 4) Production tax revenue after the school bond credits, the 1984 court settlement credits, and the water filtration plant credit have been taken.
- 5) Erie had a tonnage correction for production years 1978-1983. As a result, a credit of \$2,716,034 will be applied to the 1984 production tax.

TABLE 11

TACONITE PRODUCED (THOUSANDS OF TONS) AND
PRODUCTION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1984

<u>Year</u>	<u>Production Tons</u>	<u>Production^a Tax Revenue</u>	<u>Revenue Rate Production Ton</u>	<u>Taxable^b Tons</u>	<u>Tax Rate^b Taxable Ton</u>
1955	1,341	\$ 78	\$.058		
1956	5,069	297	.059		
1957	6,812	397	.058		
1958	8,574	500	.058		
1959	8,414	528	.063		
1960	13,390	735	.055		
1961	13,187	766	.058		
1962	14,526	842	.058		
1963	16,701	972	.058		
1964	18,505	1,075	.058		
1965	19,004	1,104	.058		
1966	21,677	1,257	.058		
1967	24,311	1,427	.059		
1968	30,269	1,782	.059		
1969	33,410	3,778	.113		
1970	35,348	4,253	.120		
1971	33,778	5,539	.164		
1972	34,544	7,002	.203		
1973	41,829	10,159	.243		
1974	41,053	11,952	.291		
1975	40,809	30,347	.744		
1976	40,575	30,857	.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	1.912
1982	23,445	80,305	3.425	38,624	2.079
1983	25,173	67,341	2.675	33,302	2.047
1984 est.	35,400	73,805 ^c	2.085	35,400	2.108

b) The 1977 law was the first to apply the production tax rate against "taxable tons", the greater of the current years production or the three-year average of production tons. Due to a negotiated settlement of court cases, the "taxable tonnage" for 1984 is the current year only. Future years will be a two-year average for 1985 and a three-year average for 1986 and beyond. (Note: This is the calculated tax rate before any credits are applied).

a) Production tax revenue does not include school bond payments by some companies or filtration plant credits. School Bond Credits (1984) -- \$759,952; Filtration Plant Credits -- \$250,000.

c) Production tax "revenue" for 1984 includes \$6,925,851 which will be returned to the industry as a credit for overpayments and interest due to the negotiated settlement of production tax court cases, and a \$2,716,034 credit resulting from a tonnage correction for Erie Mining Company for the years 1978-1983.

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 ore in this state." The occupation tax generally resembles a corporate income tax.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

The 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.

Expenses subtracted from the Lake Erie value of iron ore to arrive at the mouth of the mine value are known as **Nonstatutory Deductions**. These deductions are not specified by statute but result from administrative practice and court decisions regarding valuation. 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 is established.

Minnesota's occupation tax is somewhat more restrictive than a corporate income tax. Examples of non-allowable expenses are: contributions, depletion allowances, royalty taxes, loss carryovers, and a portion of out-of-state administrative expense. A percentage of certain expense, however, is allowable. Included are: legal fees, out-of-state administrative expense related to Minnesota operations, and other miscellaneous expenses.

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. The net effective rate actually paid for taconite is 6.75 percent of the taxable value (see below).

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, taconite producers benefit from the labor credit with ALL producers reducing their net effective occupation tax rate from 15 percent to 6.75 percent. The 1984 legislature permitted the same taconite labor credit benefits to extend to natural ore. Effective with 1985 production, the tax rate is reduced to 15 percent. With the same labor credit treatment, the occupation tax paid by natural ore producers could be reduced to 6.75 percent, just as it is for taconite. In addition, 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). The discount credit was extended to ore stockpiled from previous years by the 1984 legislature.

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.

Some of the present production tax distributions are "grandfathered" amounts which, in the past, were distributed from the occupation tax or based upon occupation tax collections.

The exact amounts distributed to various city/townships, school districts, and the I.R.R.B. are detailed in the December 1983 Mining Tax Guide (green covered book).

TABLE 12
IRON ORE AND TACONITE PRODUCED IN MINNESOTA (THOUSANDS OF TONS)
AND OCCUPATION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1983A)

Year	Iron Ore		Taconite		Totals	
	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax
1955	66,545	\$31,501	1,341	\$ 0	67,886	\$31,501
1956	57,529	27,480	5,069	0	62,598	27,480
1957	61,304	33,106	6,812	154	68,116	33,260
1958	33,247	16,353	8,574	161	41,821	16,514
1959	27,578	11,942	8,414	93	35,992	12,035
1960	44,042	20,655	13,390	638	57,432	21,293
1961	30,458	13,010	13,187	898	43,645	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	12,312
1964	30,636	12,921	18,505	1,658	49,141	14,579
1965	33,462	15,646	19,004	1,740	52,466	17,386
1966	32,601	15,545	21,677	1,898	54,278	17,443
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
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	12,708*	51,033	13,940
1982	789	719	23,445	3,348*	24,234	4,067
1983	851	499	25,173	7,386*	26,024	7,885

* Adjusted by provisions of M.S. 298.40

a) The years are production years, tax was assessed in the following year and collected on June 15.

TABLE 13
OCCUPATION TAX REPORT AVERAGES
ON A PER TON BASIS
TACONITE INDUSTRY ONLY

<u>Year</u>	<u>Tons Produced (000 Tons)</u>	<u>Lake Erie Value</u>	<u>(1) Cost of Beneficiation</u>	<u>(2) Transportation</u>	<u>Development</u>	<u>(3) Cost of Mining</u>	<u>Depreciation: Std. Plant & Motor Equip.</u>	<u>Admin. Expense</u>	<u>Misc.</u>	<u>Royalty</u>	<u>Taxable Value of Production</u>	<u>Occupation Tax Paid</u>
1971	33,778	17.408	6.922	4.421	.579	1.578	.289	.133	.221	.655	2.609	.159
1972	34,554	17.437	7.398	4.420	.665	2.019	.300	.148	.250	.657	1.569	.106
1973	41,829	18.034	7.018	4.719	.600	1.961	.267	.140	.220	.679	2.419	.163
1974	41,053	22.122	8.188	5.790	.737	2.142	.270	.150	.300	.818	3.648	.246
1975	40,809	28.846	9.720	6.835	.890	2.715	.330	.186	.435	.976	6.746	.464
1976	40,575	32.200	11.560	7.557	1.219	3.030	.470	.208	.570	1.077	6.496	.450
1977	26,372	34.827	17.816	8.075	1.415	4.116	.900	.440	.928	1.110	(.031)	.121
1978	49,545	37.080	14.950	8.710	1.497	3.827	.519	.310	.766	1.259	5.234	.388
1979	55,333	41.306	16.440	9.789	1.760	4.000	.516	.417	.880	1.320	6.166	.435
1980	43,060	46.365	21.181	10.627	2.006	4.556	.722	.587	.932	1.444	4.308	.321
1981	49,369	51.106	21.171	13.254	2.155	5.135	.646	1.202	1.003	1.704	4.835	.257
1982	23,445	53.946	31.339	12.600	2.212	5.290	1.357	3.002	1.438	2.078	(5.372)	.140
1983	25,173	56.178	26.862	12.982	1.485	4.088	1.229	3.097	1.721	1.831	2.883	.453

(1) Cost of Beneficiation includes labor, supplies, depreciation and interest, miscellaneous, sales and use tax expense, marketing and marine insurance.

(2) Transportation includes the rail and lake transportation allowances in accordance with the occupation tax directives for each year.

(3) Cost of Mining includes mining labor and supplies, plus the production tax deduction allowance for each year.

TABLE 14
OCCUPATION TAX REPORT PER TON COSTS
BENEFICIATION AND MINING

(000's Tons and Dollars)

	<u>Tons Produced</u>	<u>Beneficiation Labor</u>	<u>Per Ton</u>	<u>Beneficiation Supplies</u>	<u>Per Ton</u>	<u>Beneficiation Depreciation & Interest</u>	<u>Per Ton</u>	<u>Benef./ Misc. Per Ton</u>	<u>Total Benef. Per Ton</u>
1981	49,369	\$243,487	\$4.932	\$572,089	\$11.588	\$197,216	\$3.995	\$.656	\$21.171
1982	23,445	\$166,685	\$7.109	\$353,426	\$15.074	\$188.876	\$8.056	\$1.100	\$31.339
1983	25,173	\$158,209	\$6.285	\$331,375	\$13.164	\$184,617	\$7.334	\$.079	\$26.862
Occ. Tax Report		Line 3A		Line 3B, 6 & 7		Lines 3C & 3D		Line 3E	

	<u>Tons Produced</u>	<u>Mining Labor</u>	<u>Per Ton</u>	<u>Mining Supplies</u>	<u>Per Ton</u>	<u>Cost of Mining</u>	<u>Mining Depreciation Per Ton</u>	<u>Total Mining Costs Per Ton</u>
1981	49,369	\$111,659	\$2.262	\$141,864	\$2.873	\$5.135	.646	\$5.781
1982	23,445	\$ 59,228	\$2.526	\$ 64,798	\$2.764	\$5.290	1.357	\$6.647
1983	25,173	\$ 49,284	\$1.958	\$ 53,616	\$2.130	\$4.088	1.229	\$5.317
Occ. Tax Report		Line 9A		Lines 9B & 13			Line 9C	

TABLE 15 -- LAKE ERIE VALUE (HISTORICAL SUMMARY)

NATURAL ORE					TACONITE					
Year	LAKE ERIE VALUE/TON		TRANSPORTATION COSTS (\$/TON)			LAKE ERIE VALUE Cents Per Natural Iron Unit	LAKE ERIE VALUE (\$/ton) ^a	TRANSPORTATION COSTS (\$/TON)		
	Mesabi	Non-Bessemer	Mine to Boat	Boat to LLPort	Total Transportation			Mine to Boat	Boat to LLPort	Total Transportation
1910	4.00		N/A	N/A	N/A	---	---	---	---	---
1920	6.55		N/A	N/A	N/A	---	---	---	---	---
1930	4.50		N/A	N/A	N/A	---	---	---	---	---
1940	4.45		N/A	N/A	N/A	---	---	---	---	---
1950	7.75		1.08 ^b	1.52 ^b	2.60 ^b	---	---	---	---	---
1955	10.07		1.22 ^b	1.92 ^b	3.14 ^b	---	---	---	---	---
1960	11.45		1.47	2.27 ^c	3.74	---	---	---	---	---
1965	10.55		1.47	2.17 ^c	3.64	25.20	16.38	1.47	2.17 ^c	3.64
1966	10.55		1.47	2.17 ^c	3.64	25.20	16.38	1.47	2.17 ^c	3.64
1967	10.55		1.47	2.17 ^d	3.64	25.20	16.38	1.47	2.17 ^d	3.64
1968	10.55		1.59	2.16 ^d	3.75	25.20	16.38	1.59	2.16 ^d	3.75
1969	10.55		1.66	2.16 ^d	3.82	25.20	16.38	1.66	2.16 ^d	3.82
1970	10.80		1.74	2.31 ^d	4.05	26.60	17.29	1.74	2.31 ^d	4.05
1971	11.17		2.00	2.42 ^d	4.42	28.00	18.20	2.00	2.42 ^d	4.42
1972	11.17		2.00	2.42 ^d	4.42	28.00	18.20	2.00	2.42 ^d	4.42
1973	11.71		2.18	2.54 ^d	4.72	29.10	18.92	2.18	2.54 ^d	4.72
1974	13.97		2.56	3.24 ^c	5.80	35.41	23.02	2.56	3.24 ^c	5.80
1975	17.88		2.92	3.91 ^e	6.83	46.02	29.91	2.92	3.91 ^e	6.83
1976	19.61		3.25	4.29 ^e	7.54	51.34	33.37	3.25	4.29 ^e	7.54
1977	21.11		3.52	4.56	8.08	55.53	36.09	3.52	4.56	8.08
1978	22.02		3.66	4.95	8.61	58.51	38.03	3.70	4.97	8.67
1979	23.76		4.07	5.45	9.52	65.24	42.41	4.17	5.64	9.81
1980	26.87		4.82	6.42	11.24	72.89	47.38	4.86	5.84	10.70
1981	29.93		5.88	7.47	13.35	77.88	50.62	6.11	6.75	12.86
1982	32.53		7.13	8.06	15.19	86.90 ^f	56.49	4.61 ^g	8.08	12.69
1983	31.80		6.96	8.09	15.05	86.90 ^f	56.49	4.94 ^g	8.09	13.03

- a) Based on a pellet containing 65% Natural Iron.
The actual Lake Erie Value varies by pellet quality.
- b) Less 1/2 percent shrinkage plus three percent tax.
- c) Less 1/2 percent shrinkage.
- d) Less one percent shrinkage.

- e) Less 1/4 percent shrinkage
- f) Industry prices used for occupation taxes.
One company (P.M.) quoted a lower price
(80.50) not used by the State.
- g) Includes four months winter storage at docks.

N/A = Not Available

M.S. 298.40 AND THE TACONITE AMENDMENT

Minnesota Statute 298.40 and the Taconite Amendment to the Minnesota Constitution were passed by the voters in 1963 and 1964. These provisions limited the taxes imposed upon the two existing taconite producers (Reserve Mining Company and Erie Mining Company) and any new taconite producers through 1989.

Beginning with the 1974 Occupation Tax, the State and the mining companies have had differing interpretations of the taconite amendment, which were in litigation for several years.

In May 1983, the Minnesota Supreme Court held that in computing the hypothetical income tax limitation, 100 percent of the hypothetical income is allocated to Minnesota. They also ruled that all "production" taxes, i.e., M.S. 298.24, M.S. 298.241, or M.S. 298.243, were allowable deductions in the occupation tax report. As a result, approximately \$13.7 million in occupation tax, sales tax and railroad gross earnings tax have not been collected to repay prior year overpayments of tax.

The Taconite Amendment and M.S. 298.40 state 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 hypothetical amount of taxes (income and excise) which would be payable if the taconite company was a manufacturing corporation, with certain modifications.

The greater of (a) or (b) becomes the limitation or maximum amount of these taxes for which the taconite company is liable. Any amounts collected in excess of this limitation must be repaid to the taconite company. Since refunds are statutorily prohibited, the overpayments are returned by recognizing credits and by:

1. Not collecting current Occupation Taxes due.
2. Not collecting current Use Tax due.
3. Not collecting current Railroad Gross Earnings Tax due.

These comparisons must continue to be made through 1989, the expiration of the Taconite Amendment.

Even though the State generally prevailed in the limitation litigation, for some years specific taconite companies paid taxes in excess of the limitation. At the end of F.Y. 1984, (June 30, 1984), approximately \$13.4 million exceeded the M.S. 298.40 limitation and was not collected. We estimate additional credits for the period 1977 - 1982 may amount to \$20 million, in addition to the \$13 million currently in the accounts payable. Exact figures will be determined by audit. The M.S. 298.40 credit summary provides more details on the taxes applied to "offset" such credits.

TABLE 16 — M.S. 298.40 CREDIT SUMMARY

OCCUPATION TAX

	<u>Tax Due Without M.S. 298.40 Limit</u>	<u>(1) Tax in Excess of M.S. 298.40 Limitation (Not Collected)</u>	<u>Net Occupation Tax Due</u>	<u>(2) Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)</u>	<u>Actual Tax Collected</u>
1980	15,910,944	(2,103,345)	13,807,599	-0-	13,807,599
1981	17,175,966	(4,468,413)	12,707,553	(1,335,265)	11,372,288
1982	6,200,496	(2,852,661)	3,347,835	(3,347,835)	-0-
1983	11,401,855	(4,016,073)	7,385,782	(4,999,484)	2,386,298

SALES AND USE TAX

	<u>Tax Due</u>	<u>(3) Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)</u>	<u>Actual Tax Collected</u>
1982	7,246,363	(750,261)	6,496,102
1983	5,765,048	(2,613,605)	3,151,443
1984 est.	5,850,000	(3,200,000)	2,650,000

RAILROAD GROSS EARNINGS TAX

	<u>Tax Due</u>	<u>(4) Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)</u>	<u>Actual Tax Collected</u>
1983	926,207	(640,512)	285,695
1984 est.	1,687,000	(1,687,000)	-0-

(1) 1980-1983 Occupation Tax exceeding M.S. 298.40 limitation (not collected)	\$13,440,492
(2) 1981-1983 Occupation Tax applied to M.S. 298.40 credits (not collected)	\$ 9,682,584
(3) 1982-1983 Sales Tax applied to M.S. 298.40 credits (not collected)	\$ 3,363,866
(4) 1983 Railroad Tax applied to M.S. 298.40 credits (not collected)	\$ 640,512

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.

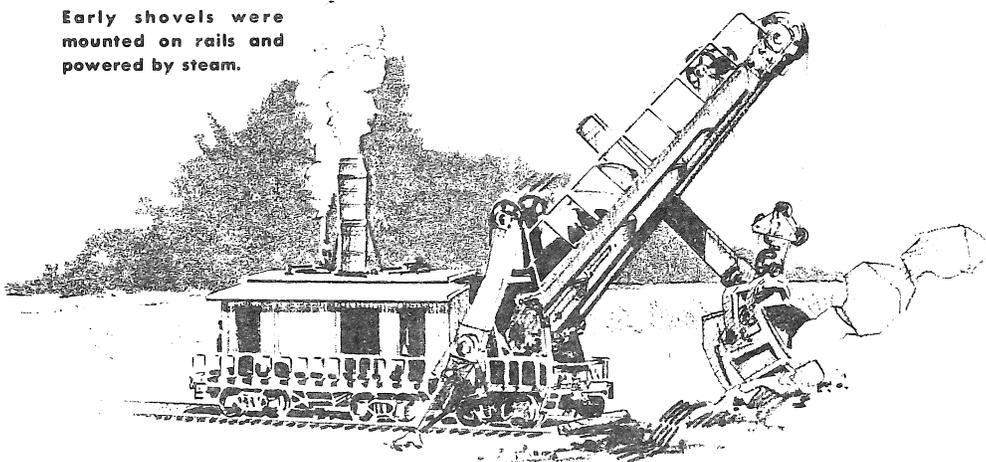
A record of iron ore ad valorem taxes since 1970 is listed as follows:

<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

<u>YEAR PAYABLE</u>	<u>COUNTY</u>	<u>LOCAL</u>	<u>TOTAL</u> (Cont'd.)
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	2,193,940	2,149,087	4,343,027
1981	1,783,461	1,905,607	3,689,068
1982	1,713,271	2,057,006	3,770,277
1983	1,561,778	1,982,895	3,544,673
1984	1,591,852	2,107,723	3,699,575

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.

Early shovels were mounted on rails and powered by steam.



GROSS EARNINGS TAX ON TACONITE RAILROADS

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 1	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, track 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 as follows:

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.

<u>Calendar Year</u>	<u>Tax</u>	<u>M.S. 298.40 Offset (Tax Not Collected)</u>
1977	\$1,509,773	
1978	\$3,267,250	
1979	\$3,634,407	
1980	\$2,983,819	
1981	\$4,960,605	
1982	\$1,354,173	
1983	926,207	\$640,512

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 lessee 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 lessee. Royalties can include rents, bonus payments, option to purchase payments, non-recoverable lease payments, etc.

Who is liable for the royalty tax -- lessor or lessee -- is determined by the language written in the lease. If the lessor is liable, M.S. 299.08 requires the lessee to withhold the amount of the tax from payments made to the lessor. If the lessee is liable according to the terms of the lease, the tax is in addition to the royalty paid to the lessor. Regardless of who is liable, all royalty tax will be remitted to the Commissioner of Revenue by the lessee. Royalty tax payments are due when royalty payments are made to the recipients. However, it is possible to remit an annual royalty tax payment. This method has proven to be more convenient for exploration companies.

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 15 percent 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 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 for an active open pit mine to approximately 14 percent.*

As with the occupation tax, beginning with 1985 production, the royalty tax rate on the exploration and mining of iron ore is reduced to 15 percent. More significantly, the same labor credits apply to mining iron ore as to mining taconite. This means the net effective rate may be reduced to a minimum of 6.75 percent if the cost of labor meets or exceeds the necessary amount.

The tax rate or labor credit provisions applicable to the mining of base or precious metals has not been changed. The royalty tax rate which would apply to the mining or production of all other ores, including base or precious metals, is 15.5 percent. A special labor credit is available which would probably reduce the rate for an active open pit mine to about 14 percent. (This estimate is based on the experience of the natural iron ore industry with the same rate and credit available.) A more generous labor credit formula is available to underground mines. For an operating underground base or precious metal mine, labor credits would probably reduce the net effective rate to about 7.25 percent. A lower royalty tax rate (one percent) may apply during the exploration phase and is explained in the section on Copper-Nickel mining.

*However, labor credits for an underground mine would probably reduce the net effective rate to approximately 7.25 percent.

1. Special tax provisions apply to royalty on copper-nickel. 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 recovered as by-products.
2. There are also special tax provisions that govern a mine where the cost of production exceeds the value of the ore produced, or a "loss mine". In this instance, the rate for a natural ore mine is 8.9 percent; the rate for a taconite mine is 6.75 percent; the rate for copper-nickel mines remains at one percent; the rate for minerals other than the aforementioned is also 8.9 percent unless the mine is underground where the rate of 7.25 percent would then apply. For natural ore mined after December 31, 1984, the rate is the same as taconite.
3. State owned leases are not subject to a royalty tax. 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 17
IRON ORE, TACONITE & OTHER ORE*, ROYALTY TAX

<u>Year</u>	<u>Iron Ore Royalty Tax (000's)</u>	<u>Taconite Royalty Tax (000's)</u>	<u>Other Ore Royalty Tax (000's)</u>	<u>Total Revenue (000's)</u>
1970	\$ 966	\$ 787	3	\$1,756
1971	705	1,323	3	2,031
1972	904	1,402	2	2,308
1973	1,289	1,886	2	3,177
1974	1,351	1,994	2	3,347
1975	998	2,657	2	3,657
1976	686	2,841	2	3,529
1977	748	2,626	2	3,376
1978	894	3,280	21	4,195
1979	807	4,775	34	5,616
1980	713	4,619	22	5,355
1981	429	5,392	44	5,866
1982	619	4,093	13	4,725
1983	445	2,821	13	3,279

*Other Ore may include Copper-Nickel, Base or Precious Metals, or any other mineral on which royalty tax is paid.

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.

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

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 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.

From February 1, 1975, through July 1, 1978, the taconite industry had an exemption from sales and use tax exclusively for plant expansion. A minimum increase in production capacity of 10 percent was required to qualify (refer to 1983 Mining Tax Guide).

Effective July 1, 1984, the sales and use tax rate on capital equipment purchased for new or expanding industries was reduced from six percent to four percent. Purchasers who pay tax to the vendor as well as holders of direct pay permits must pay or assess the six percent rate and then file a claim for refund with sufficient documentation to the State for the two percent difference. Only two claims for refund can be filed per year but they can be for more than one purchase. The exemption does not apply to the purchase or lease of machinery or equipment to replace existing items, repair or replacement parts or machinery or equipment used to extract, receive or store raw materials.

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.

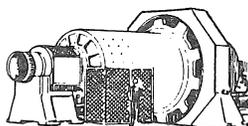
A review of the sales/use tax revenue generated annually by the iron ore industry clearly establishes that the totals are substantial amounts, and are of major ranking of all tax revenues paid by the mining industry.

In previous Minnesota Mining Tax Guide's, the sales and use tax revenue generated figures shown were on the cash basis of accounting. For consistency throughout the Guide, the sales and use tax after 1980 have been changed to the accrual method of accounting.

<u>YEAR</u>	<u>SALES TAX</u>	<u>M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)</u>
1975	\$ 7,214,111	
1976	7,446,168	
1977	7,375,115	
1978	8,573,835	
1979	12,590,481	
1980	9,231,156	
1981	10,535,427	
1982	7,338,653	750,261
1983	5,808,237	2,613,605
1984 estimated	5,850,000	3,200,000

Sales Tax Rate History

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



GRINDING

M.S. 298.26 TAX ON UNMINED TACONITE

A tax not exceeding \$10.00 per acre may be assessed upon 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 on M.S. 298.26 is somewhat misleading in that 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 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. 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 governmental lot, said tract or lot are exempt from the unmined taconite tax. The county assessors have also exempted actual platted townsites that are occupied.

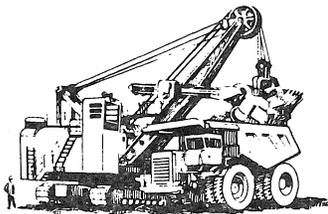
The iron formation lands on the Mesabi Range are divided into two categories by the engineering section of the Minerals Tax Division. This is done through the evaluation of exploration and mine planning data submitted by the mining companies.

The categories are listed as follows:

1. Those lands which are underlain by magnetic taconite of 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 times 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.



LOADING

TABLE 18 — TAX COLLECTIONS ON UNMINED TACONITE

<u>County</u>	<u>YEAR ASSESSED*</u>				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Itasca	30,832	28,263	30,946	32,690	34,741
St. Louis	<u>208,916</u>	<u>203,955</u>	<u>209,118</u>	<u>252,011</u>	<u>296,228</u>
Totals	239,748	232,218	240,064	284,701	330,969

* Taxes are payable in the year following the assessment.

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 previously 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.

DEFINITION OF COPPER-NICKEL ORE

M.S. 298.67 defines the term "copper-nickel ore" as: "any ore in which copper or nickel, or both, constitute the major element or elements of value thereof." Administratively, we have interpreted this to mean that copper and/or nickel must be the largest constituent of value in the ore.

TAXES

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 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 copper-nickel production and occupation taxes follows:

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 if 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.

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. The question has been raised as to when copper-nickel tax rates (one percent) apply and when the "other ore" rates (15.5 percent) apply.

Our current policy is as follows:

1. During the exploration phase, royalty on leases for copper-nickel and associated minerals will be taxed at one percent. Royalty on leases specifically for iron ore, taconite, and uranium will be taxed at 15 percent or 15.5 percent.
2. After completion of the exploration phase, if it is apparent that the minerals discovered are something other than copper-nickel, royalties paid will then be taxed at 15.5 percent. This rate will not be adjusted retroactively.



CRUSHING

TAXES ON OTHER MINING AND/OR EXPLORATION

Base Metals, Precious Metals, and Energy Minerals

(Copper, Lead,
Zinc, Etc.)

(Gold, Silver, Platinum
Group, Etc.)

(Coal, Oil, Gas,
and Uranium)

Under current law, any of this type of mining activity would be subject to the following taxes:

- | | |
|----------------------|--|
| 1) Occupation Tax | 4) Ad Valorem |
| 2) Sales and Use Tax | (Property Tax) |
| 3) Royalty Tax | 5) Tax on Severed
Mineral Interests |

The Occupation Tax rate which would apply to base metal mines, precious metal mines, and energy minerals is 15.5 percent. This tax is normally paid in lieu of corporate income tax. However, a special labor credit is available which would reduce the rate for an active open pit mine to about 14 percent. (This estimate is based on the experience of the natural iron ore industry with the same rate and credit available). For an operating underground mine, a more generous labor credit is available which would probably reduce the net effective rate to about 7.25 percent. The net effective occupation tax rate also applies to royalty taxes for operating mines.

Mining companies who are exploring for various metals or minerals in Minnesota for themselves would not incur any occupation tax liability until production had been started and would not be subject to income tax.

During the drilling and exploration phase, a mining company would be subject to property taxes on the property (land and buildings). Severed mineral rights would be subject to the \$.25 per acre severed mineral interest tax. This does not apply to mineral interests held by the state or federal government.

The Sales and Use Tax rate is six percent. The exemptions given industry are described in the Sales and Use Tax section of this book. The exemptions unique to taconite would not extend to other mining without special legislation. However, the exemptions which apply to all manufacturing would also be applicable to mining.

Exemptions given for industrial production DO NOT APPLY to exploration. No tax exempt certificates should be used. All purchases by companies doing exploration are taxable.

As of July 1, 1984, capital equipment purchased or leased for new or expanding industries is subject to a four percent tax rate. The buyer initially pays the six percent tax and then files a claim for refund with the Sales and Use Tax Division for the two percent overpayment. For a more detailed explanation, contact the Minerals Tax Division.

The Royalty Tax is a tax placed on all royalties paid to mineral right owners, regardless of whether any actual mining is taking place or not. Royalties can include rents, bonus payments, non-recoverable lease payments, etc. The royalty tax rate is the same as the occupation tax rate after labor credits (net effective rate) for an active mine. The rate for inactive mines would be 15.5 percent, the same as occupation tax. Royalty paid to the State of Minnesota on state owned leases is not subject to Royalty Tax. Historically, privately negotiated leases in Minnesota have assigned the responsibility for payment of royalty taxes to the mining company. The terms and responsibility for payment of the royalty tax is a matter of negotiation between the parties involved, depending on the terms of the lease. However, it is the responsibility of the lessee to withhold the amount of the tax even if the terms of the lease state that the lessor is responsible for the tax (M.S. 299.08).

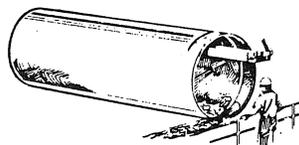
It should be noted that special tax laws apply to copper-nickel only and are covered in a separate section. During the exploration phase, royalties paid on leases for copper-nickel and associated minerals will be taxed at one percent as explained in the Copper-Nickel section.

The Ad Valorem Tax or property tax is a matter of valuation of the ores in the ground by the state and the valuation of other property such as land, mill and smelter buildings, etc., by the county. The county establishes mill rates, assesses and collects this tax. The Hoskold formula is used by the Minerals Tax Division for the valuation of ores and minerals in the ground.

The Corporate Income Tax would not be applicable to mining or mineral production. However, it could apply to non-mining or non-mineral income such as building rentals or real estate and timber investments, etc.

TAXES ON PEAT HARVESTING

As of the writing of this book, the only taxes on peat operations are the same as those on any other Minnesota agricultural or industrial operation. These taxes are the Income Tax (corporation or individual), the Sales and Use Tax, with the industrial production exemptions, and the Ad Valorem (property) Tax on the land and buildings, NOT on the value of the peat.



PELLET FORMING

TABLE 19
APPLICABLE TAXES BY TYPE OF MINERAL

	<u>Taconite Mining</u>	<u>Natural Iron Ore Mining</u>	<u>Cu-Ni Mining</u>	<u>Base Metal, Precious Metal, Energy Minerals Mining</u>	<u>Peat Harvesting</u>
Occupation Tax	Yes ¹	Yes ²	Yes ³	Yes ⁴	No
Corp. Income Tax	No	No	Yes	No	Yes
Ad Valorem Tax (on ore value)	No ⁵	Yes	No ⁵	Yes ⁵	Yes
Ad Valorem Tax (on smelter, beneficiation plant or other facilities)	No	Yes	Yes	Yes	Yes
Royalty Tax ⁶	Yes	Yes	Yes	Yes ⁴	No
Production Tax	Yes	No	Yes	No	No
Sales Tax	Yes	Yes	Yes	Yes	Yes

This chart applies only to mining companies in commercial production. Mining companies in exploratory work are subject only to ad valorem taxes, royalty tax, and sales tax.

1 - Normally 6.75 percent after labor credit (nominal rate 15 percent).

2 - About 14 percent after labor credit (nominal rate 15.5 percent) through 12-31-84. As of 1-1-85, the nominal rate is 15 percent--minimum after the labor credit of 6.75 percent.

3 - One percent only, credit on corporate income tax.

4 - Approximately 14 percent for open pit mines and 7.25 percent for underground mines (after labor credit). The nominal rate is 15.5 percent before labor credits. The royalty tax rate could be one percent during the exploration phase.

5 - Could be subject to \$.25 per acre severed mineral interest tax.

6 - No royalty tax on State of Minnesota owned minerals.

TABLE 20 -- ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

AD VALOREM TAX

- | | | |
|-----------------------|----|--|
| <u>January</u> | -- | Ad Valorem Tax Reports mailed to companies. |
| <u>January - June</u> | -- | Estimates submitted by companies. |
| <u>May 15</u> | -- | Ad Valorem Tax Reports due from mining 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 14</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)

- | | | |
|-------------------|----|--|
| <u>February 1</u> | -- | Annual Royalty Paid Report by companies due in Division office. |
| | | Annual Royalty Received Report from recipients due in Division office. |

ROYALTY TAX (RENTS) (Cont'd.)

- February 1 -- 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 based on actual production 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.

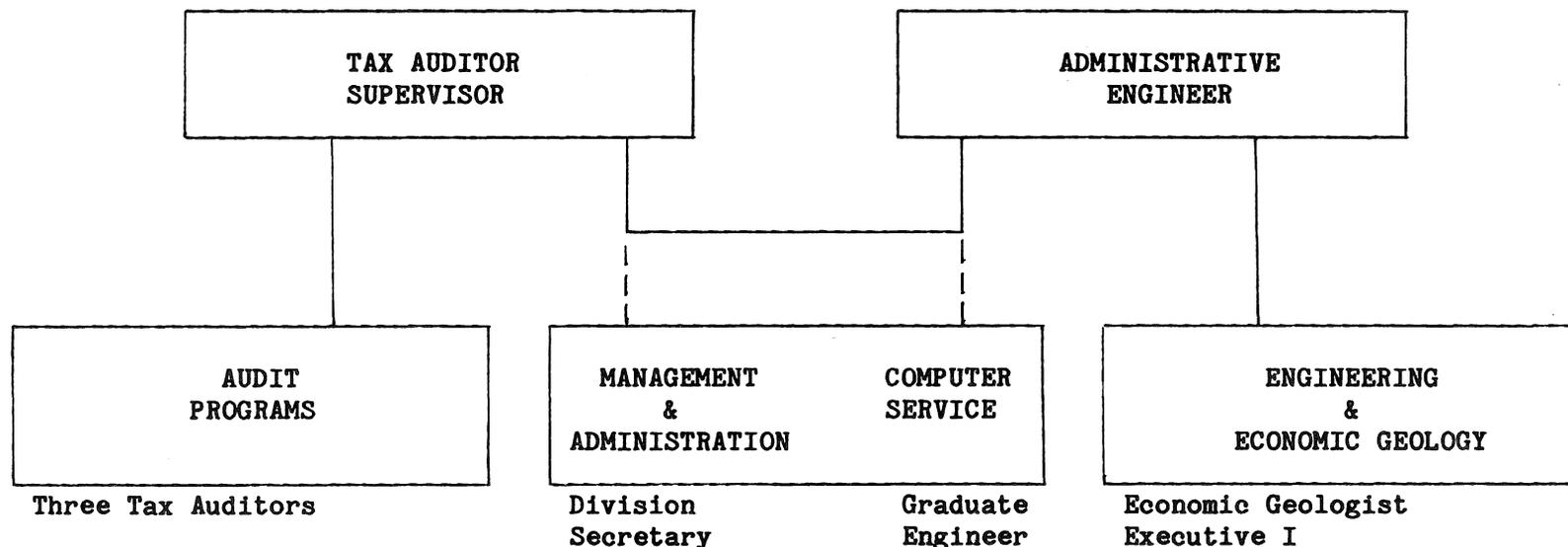
UNMINED TACONITE TAX

- April 1 -- Owner or lessee of mineral rights submits specified data on drill hole logs and lab tests for previous year.
- December 1 -- Division submits reports to county assessors.

NOTES

MINNESOTA DEPARTMENT OF REVENUE

Minerals Tax Division



This report is the result of the valuable contributions of these individuals in the Minerals Tax Division: Don Walsh, Tom Schmucker, Sandy Gorrill, Bill Betzler, John Rioux, Norma Brusacoram, Bill O'Brien, Bob Wagstrom, Judy Geiselman, and Mary Jo Grahek.

MINERALS TAX DIVISION HISTORY

Responsibility for ore estimation activity was transferred from the University of Minnesota to the Department of Revenue in 1975. The Office of Ore Estimation was moved from the University in Minneapolis to Eveleth in November of 1975. In 1979, all activities dealing with mining taxes and production tax aids were combined into the Minerals Tax Division of the Department of Revenue and moved to Eveleth.

**MINERALS AND MINING
Government Agencies**

MINNESOTA DEPARTMENT OF REVENUE
Minerals Tax Division
612 Pierce Street
Eveleth, MN 55734
(218) 744-5364

DONALD H. WALSH, Tax Examiner Supervisor, Administration
JOHN B. RIOUX, Tax Examiner - Occupation Tax
NORMA BRUSACORAM, Tax Examiner - Occupation Tax/Accounts Payable
BILL O'BRIEN, Tax Examiner - Sales & Use Tax
MARY JO GRAHEK, Secretary

THOMAS W. SCHMUCKER, Administrative Engineer - Production Tax, Valuations
WILLIAM F. BETZLER, Mining Economic Geologist - Minerals Information System
SANDRA D. GORRILL, Executive I - Royalty Tax, Gross Earnings Tax
ROBERT A. WAGSTROM, Computer Programs, Mining Engineer

MINNESOTA DEPARTMENT OF NATURAL RESOURCES
Centennial Office Building
St. Paul, MN 55155
(612) 296-8157

J. A. ALEXANDER, Commissioner
E. F. RAFFN, Director, Division of Minerals
R. B. HITCHCOCK, Director, Division of Forestry

Minerals Division
1525 3rd Ave. E.
Hibbing, MN 55746
(218) 262-6767

GODFREY ZAKULA, Assistant Chief Mining Engineer
GEORGE GLUMAC, Research
MARTY VADIS, Exploration
ROGER JOHNSON, Operations

MINERAL RESOURCES RESEARCH CENTER
University of Minnesota
56 East River Road
Minneapolis, MN 55455
(612) 373-3341

K. J. REID, Professor & Director
I. IWASAKI, Professor, Mineral Processing/Hydrometallurgy
J. J. MOORE, Associate Professor, Process Metallurgy/Plasma Technology
(Associate Director)
N. F. SCHDLZ, Research Associate, Agglomeration
K. A. SMITH, Assistant Professor, Mineral Processing/Hydrometallurgy
A. M. STARFIELD, Professor, Computer Applications/Simulation
R. L. STERLING, Assistant Professor & Director, Underground Space Center
J. K. TYLKO, Adjunct Professor, Applied Plasma Metallurgy

MINNESOTA GEOLOGICAL SURVEY
1633 Eustis Street
St. Paul, Minnesota
(612) 373-3372

M. S. WALTON, Director
G. B. MOREY, Associate Director and Chief Geologist
D. L. SOUTHWICK, Associate Chief Geologist
V. W. CHANDLER, Geophysicist
B. M. OLSEN, Well Log Data Base
J. F. SPLETTSTOESSER, Program Administrator
NANCY BALABAN, Editor

COUNTY MINE INSPECTORS

D. A. SANDSTROM, St. Louis Co. Mine Inspector, Court House Annex, Virginia, MN (218)749-7121
S. P. JELENCICH, Crow Wing Co. Mine Inspector, Star Route 1, Deerwood, MN (218)546-5868
ALVAR HUPILA, Itasca Co. Mine Inspector (218)245-2261

MINNESOTA'S IRON MINING AREA

