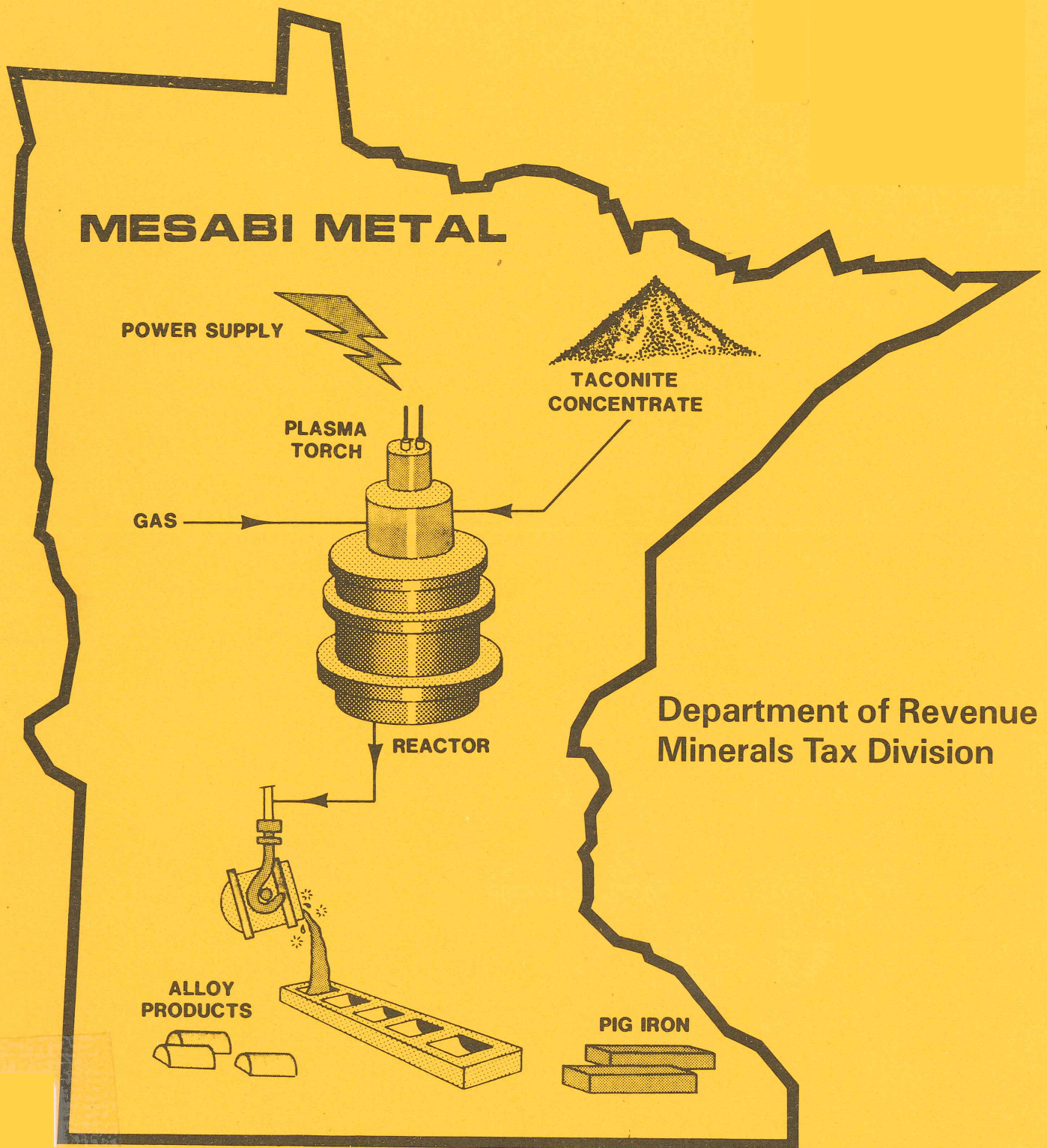


MINNESOTA

MINING TAX GUIDE

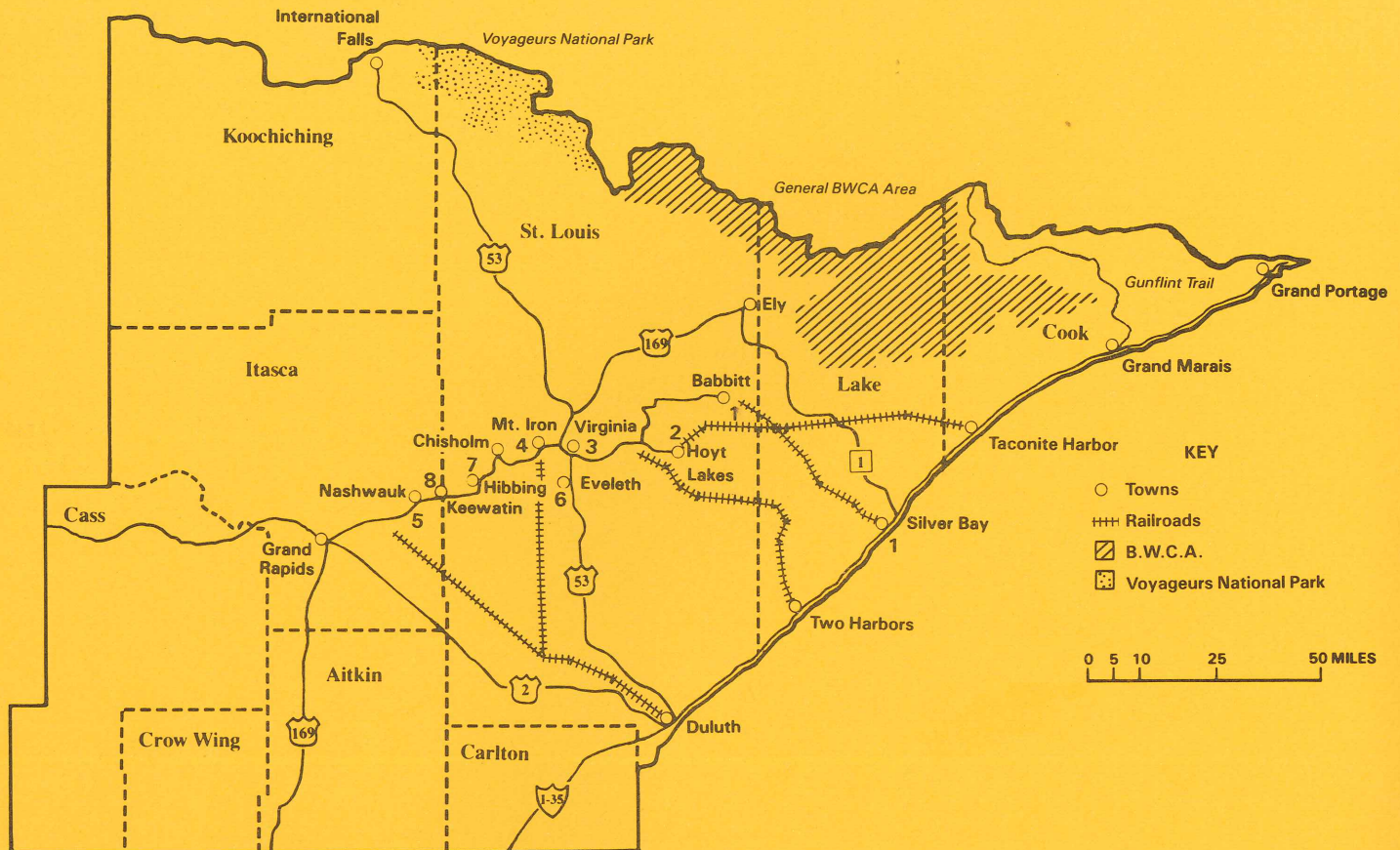


Department of Revenue
Minerals Tax Division

December 1985

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	<u>Annual Capacity (million tons)</u>		<u>Annual Capacity (million tons)</u>
1) RESERVE MINING COMPANY No Managing Agent Owners: Armco, Inc. (50%) LTV Steel (50%)	9.6	(6) EVELETH MINES* 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 Company (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 COMPANY Owners: Bethlehem Steel Co. (62.3%) Pickands Mather & Co. (15%) LTV Steel Company (16%) The Steel Company of Canada, Ltd. (6.7%)	8.1
3) MINORCA PLANT Owner: Inland Steel Mining Co. (100%)	2.6	(8) NATIONAL STEEL PELLET COMPANY M. A. Hanna Company, Managing Agent Owner: National Steel Corp. (100%) National Steel Corporation Ownership: National Intergroup (50%) Nippon Kokan KK (50%)	4.0
4) MINNYAC PLANT No Managing Agent Owner: United States Steel Corp. (100%)	18.5		
5) BUTLER TACONITE COMPANY* M. A. Hanna Company, Managing Agent Owners: Inland Steel Mining Co. (38%) Itasca Pellet Co. (62%) Itasca Pellet Ownership: M. A. Hanna Co. (60.5%) (37.5%) Wheeling-Pittsburgh Steel (39.5%) (24.5%) Butler Taconite Company ceased production on June 28, 1985.	2.65		
		*The second percentage denotes the percent of ownership of the total company.	
		Total Capacity (excluding Butler):	59.8

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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, December 1983, and December 1984.

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 front and back cover and emphasis on page one is the hope and future of the mining industry in Minnesota. Special thanks go to Tom Hayes, Public Relations, Pickands Mather and Company, for information and the cover drawing on the Mesabi Metal project, and Ron Visness, Minnesota Department of Natural Resources, for similar help on the K-R process.

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THE IRON ORE AND TACONITE MINING INDUSTRY IN MINNESOTA

Previous Minnesota Mining Tax Guides reflected on the history of mining in Minnesota. This edition will look briefly at both the present and the future of the mining industry of Northern Minnesota.

The first half of this decade has proved difficult for the American steel and iron mining industry. The causes are numerous and complex. In June 1985, the Butler Taconite Company was permanently shutdown. Rumors abound about other possible plant closings or mergers to reduce total taconite capacity and to improve efficiency. This uncertainty about the future of mining operations in Minnesota is directly related to the present.

There has been much discussion about the need to further reduce power costs, transportation costs, and taxes. The mining industry has made great strides in reducing production costs per ton by becoming more cost-effective in the areas of labor and supplies. Legislative action resulted in occupation, royalty, and production tax decreases. Advanced technology and its application to our mining industry are additional areas which can enhance our competitive position.

New Technology

Two new processes of making iron from taconite have created some hope for stability in Iron Range production and employment.

Mesabi Metal

The first is the Mesabi Metal project. This process uses a "plasma torch" to produce premium pig iron and refined special steel or alloys from taconite concentrates. The participants are the Pickands Mather Company, Westinghouse, Minnesota Power and the Iron Range Resources and Rehabilitation Board. The State of Minnesota extended a \$1.375 million loan/grant. The three private companies have pledged \$1.8 million. The Pilot phase was encouraging and a semi-commercial demonstration plant capable of producing 100,000 tons per year is in the process of construction.

K-R Process

The second is the KR or "coal reduction" process of making iron from taconite pellets or natural ore. This process was developed by Korf Engineering of West Germany. The participants in this project are the Minnesota Department of Natural Resources, Korf Engineering and U. S. Steel Corporation. Minnesota taconite pellets were tested in Germany in 1984. Results were encouraging enough for the participants to seek additional state and federal financing. If federal funding is secured, plans call for the design and construction of an \$80 million demonstration plant integrated with U. S. Steel's Minntac plant.

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

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

Year	Total Production (000's of Tons)	Percent of Total		Total Employment (000's)
		Iron Ore	Taconite	
1950	65,235	99.9%	0.1%	15.4
1955	67,893	98.0	2.0	15.7
1960	57,425	76.7	23.3	16.6
1965	52,466	63.8	36.2	13.0
1970	56,520	37.5	62.5	13.3
1975	51,067	20.1	79.9	12.8
1980	45,280	4.9	95.1	13.8
1981	51,033	3.3	96.7	13.9
1982	24,234	3.3	96.7	7.7
1983	26,024	3.3	96.7	6.5
1984	36,538	2.3	97.7	7.4
1985 (est.)	33,900	4.3	95.7	6.7

Minnesota's share of total U.S. production has been consistently greater than 60 percent, generally falling in the 60 to 70 percent range. Minnesota's share of total world production has been steadily declining. In 1950, Minnesota 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. It appears this new lower level may become permanent.

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

Year	Minnesota ¹		U.S. ²		World ² Production Tons (000,000's)
	Production Tons (000's)	Minn. %U.S.	Production Tons (000's)	Minn. %World	
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	6.7	889
1980	45,281	65.0	69,613	5.2	877
1981	51,033	69.7	73,174	6.1	842
1982	24,234	68.4	35,433	3.2	769
1983	26,024	67.5	38,562	3.6	730
1984	36,538	71.6	51,000*	4.7	785*

*Preliminary figures

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

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</u>	<u>1985 est.</u>
Ad Valorem - Unmined Natural Ore (Year Assessed)	\$ 4,560	\$ 3,689	\$ 3,770	\$ 3,545	\$ 3,700	\$ 3,326	\$ 3,000
Occupation - Taconite	18,955	13,808*	12,708*	3,348*	7,386*	29,915*	18,000*
Natural Ore	5,038	1,000	1,232	719	499	442	500
Taconite Production	30,347	87,179	99,018	80,305	67,341	74,406**	68,992***
Railroad Gross Earnings - Taconite	3,072	2,984	4,961	1,354	926	1,678	1,500
Royalty - Taconite	2,657	4,619	5,392	4,093	2,821	4,564	4,000
Natural Ore	998	713	429	619	445	536	500
Unmined Taconite (Year Assessed)	64	232	240	285	331	321	320
Sales & Use (Taconite Only)	<u>7,214</u>	<u>9,982</u>	<u>9,799</u>	<u>7,828</u>	<u>5,765</u>	<u>7,110</u>	<u>6,000</u>
TOTAL: (Taconite Only)	\$ 62,309	\$ 118,804	\$ 132,118	\$ 97,213	\$ 84,570	\$ 117,994	\$ 98,812
TONS PRODUCED: (Taconite)	40,809	43,060	49,369	23,445	25,173	35,689	32,450
TOTAL TAXES PAID ON PER TON BASE: (Taconite)	1.526	2.759	2.676	4.146	3.359	3.306	3.045

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

** Actual amount collected was \$64.51 million. A \$6.93 million credit will be allowed due to a Minnesota Supreme Court Decision on production tax court cases. 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. Also a \$0.25 million credit was allowed for construction of a water filtration plant.

*** Actual amount collected estimated to be \$64.31 million. A \$4.43 million credit will be allowed due to a Minnesota Supreme Court decision on production tax court cases. Also a \$0.25 million credit will be allowed for construction of a water filtration plant.

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^b</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
1984	321,389	7,110,166	74,406,140 ^(c)	29,915,354 ^(d)	4,563,672	774,865	1,678,295	118,769,881	35,688,592	3.32
1985 (est.)	320,000	6,000,000	68,992,000 ^(c)	18,000,000 ^(e)	4,000,000	768,000	1,500,000	99,580,000	32,450,000	3.069

(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.

(b) Special School and Village Taxes (School Bonds, etc.).

(c) After school bond credits, but before filtration plant and Erie II court case credits. The 1984 production tax is based on the tonnage produced only in 1984 - a change in the 1984 Minnesota Statutes. The 1985 production tax is based on the tonnage production average for 1984 and 1985.

(d) Occupation tax increase reflects improved operating costs, i.e., reduced labor and supply costs with a tonnage production increase and no decrease in the Lake Erie Value.

(e) The estimated decrease is due to a significant drop in the Lake Erie Value by some companies beginning in August.

TABLE 4A — LAKE ERIE VALUE (HISTORICAL SUMMARY)

NATURAL ORE					TACONITE				
Year	LAKE ERIE VALUE/TON Mesabi Non-Bessemer	TRANSPORTATION COSTS (\$/TON)			LAKE ERIE VALUE Cents Per Natural Iron Unit	LAKE ERIE VALUE (\$/ton) ^a	TRANSPORTATION COSTS (\$/TON)		
		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
1984	31.53 ^h	6.73	8.09	14.82	86.90 ^f	56.49	4.98 ^g	8.09	13.07

- 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.
- N/A = Not Available

- 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.
- h) Fines

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.

The last major change in the production tax prior to the 1984 legislative session was made by the 1977 legislature. (Those changes made by the 1977 legislature are described in the December 1983 Minnesota Mining Tax Guide). The 1984 changes are described on this page and the following page.

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. (The 1984 base rate--not including iron escalation--was \$2.0475599 per taxable ton).
- 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 1984 was \$2.11 per taxable ton after the price index escalation of 1.6380479 and the iron content escalation were applied. (This is a slight increase from the 1983 average rate of \$2.05 per taxable ton). The rate for the 1985 and 1986 production years will be approximately \$2.05 per taxable ton.

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 1985 legislature made some changes in the taconite production tax distribution which designated the counties involved as fiscal agents for the actual payments. The county auditor of each county will be responsible for taconite aid payments to the taxing jurisdictions within the county. The counties affected are Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin. The taconite mining companies will make tax payments directly to the six counties and the I.R.R.R.B. The one-cent per ton formerly allocated to the state for administration is eliminated. St. Louis County is designated as fiscal agent for the taconite property tax relief account and the fund balance of approximately \$3,000,000 will be turned over to St. Louis County on February 15, 1986. St. Louis County will issue taconite property tax relief checks to the other five counties. The Department of Revenue will continue to do all computations regarding the amount to be paid by the companies and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds should be remitted by the counties to the I.R.R.R.B.

The proceeds of the 1984 taconite production tax (payable 1985) 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:		12.5
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. Taconite Referendum Fund:	(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:		17.75*
6. State:		1.0
7. I.R.R.R.B.:		3.0**
8. Range Assn. of Municipalities and Schools:		0.2
9. N.E. Minnesota Economic Protection Fund		1.5*

*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 1984 production year, the county was 25.4-cents and road and bridge was 6.6-cents with escalation. The actual amount received by the county (29.3-cents), road and bridge (7.5-cents), and other funds per taxable ton was greater due to M.S. 298.225 aid guarantees.

**This base year amount was increased in 1981 and subsequent years (base year 1977). For the 1984 production year, the IRRRB was 4.9-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 percent 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. TACONITE REFERENDUM FUND (Formerly School Fund Index)

The Taconite Referendum Fund 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 1.75 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 1.75 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 \$.1775 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 Ranges. 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.

A revised formula which includes the "taconite break point" was introduced for the taconite homestead credit beginning with taxes payable in 1984. This formula is too long and complex to explain briefly. However, it basically insures that recipients will not receive a greater credit with the new formula than they would have received under the pre-1984 formula.

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 17.75-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. (In July 1985, the Mt. Iron and Buhl school districts consolidated into Independent School District No. 712). 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 - The recipients of the taconite production tax as provided in M.S. 298.28, Subdivision 1, Clauses (1) to (4), (5)(b), (7) and (8)(a), are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the distributed amount will be reduced proportionately at two percent per each 1,000,000 tons that the production is less than 42,000,000 tons. This aid guarantee is funded equally by the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The aid payments covered by the guarantee are listed as follows:

1. 2.5-cents City and Town Fund
2. 12.5-cents Taconite Municipal Aid
3. a) 23-cents School Fund
b) 6-cents School District Fund
c) Taconite Referendum Fund
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. 3-cents Escalated to I.R.R.R.B.
7. .2-cents R.A.M.S.

PRODUCTION TAX DISTRIBUTIONS BASED ON PAST OCCUPATION TAX DISTRIBUTIONS

Some of the present production tax distributions are "grandfathered" amounts which, in the past, were distributed from the general fund based upon occupation tax collections. These distribution amounts became effective with the collection of the 1975 production tax. They are based upon amounts distributed in 1975 from the 1974 occupation tax.

<u>City/Township</u>	<u>Municipal Aid</u>	<u>School District</u>	<u>School Aid</u>
Aurora	\$ 3,047	316-Coleraine	\$ 63,088
Babbitt	60,872	319-Nashwauk-	
Eveleth	3,526	Keewatin	7,124
Gilbert	1,606	381-Lake Superior	115,957
Hibbing	25,747	691-Aurora-	
Hoyt Lakes	92,896	Hoyt Lakes	198,878
Keewatin	8,326	692-Babbitt	121,743
Mt. Iron	145,670	693-Biwabik	51,971
Nashwauk	8,079	697-Eveleth	13,475
Silver Bay	57,979	701-Hibbing	51,493
Virginia	2,841	706-Virginia	2,470
Great Scott Twp.	11,910	710-St. Louis	
Greenway Twp.	7,511	County	16,096
Lone Pine Twp.	2,820	712-Mt. Iron-	
McDavitt Twp.	8,048	Buhl	<u>315,160</u>
Nashwauk Twp.	8,370		<u>\$957,455</u>
White Twp.	<u>29,481</u>		
	<u>\$478,729</u>		

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on pages 9 and 10 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1985 are listed as follows:

Total Listed By County:

St. Louis County	\$ 6,385,697	Aitkin County	\$ 430,087
Itasca County	\$ 2,151,647	Cook County	\$ 229,465
Lake County	\$ 675,717	Koochiching County	<u>\$ 4,107</u>
Crow Wing County	\$ 480,716	TOTAL PAID IN 1985:	<u>\$10,357,436*</u>

Total Listed By School District

001-Aitkin	\$ 443,070	695-Chisholm	\$ 572,532
166-Cook County	\$ 229,465	696-Ely	\$ 409,210
182-Crosby/Ironton	\$ 467,733	697-Eveleth	\$ 527,463
316-Coleraine	\$ 476,159	699-Gilbert	\$ 227,481
318-Grand Rapids	\$ 1,320,645	701-Hibbing	\$ 1,428,984
319-Nashwauk/Keewatin	\$ 309,519	706-Virginia	\$ 967,507
381-Lake Superior	\$ 793,727	708-Tower/Soudan	\$ 206,027
691-Aurora/Hoyt Lakes	\$ 398,147	710-St. Louis Cty.	\$ 694,952
692-Babbitt	\$ 201,534	712-Mt. Iron/Buhl	<u>\$ 336,136</u>
693-Biwabik	\$ 165,208	TOTAL PAID IN 1985:	<u>\$10,175,499*</u>

*Mobile home credit included in county totals but omitted for some school districts.

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

1985 DISTRIBUTION (1984 PRODUCTION YEAR)
BASED ON 35,688,592 TAXABLE TONS

<u>Aid Recipient</u>	<u>Cents Per Taxable Ton</u>
Taconite Cities and Towns	3.3
Taconite Municipal Aid	16.4
School Districts	50.0*
County	29.3
County Road and Bridge	7.5
Taconite Property Tax Relief	24.9
State of Minnesota	1.0
I.R.R.R.B.	9.0
R.A.M.S.	.3
Taconite Railroad Grand-	
father Amount	8.9
Taconite Environmental	
Protection Fund	24.4
N.E. Minnesota Economic	
Protection Fund	5.2
School Bond Credits & Payment	2.8
Filtration Plant Credit	.7
Prior Year Tonnage Correction Credit	7.6
1984 Court Case Credits	<u>19.4</u>
	<u>210.7</u>

*43.9 cents-per-ton will be subtracted from aids or levies a taconite school district would otherwise receive. The six-cent and 23-cent school funds and the school portion of taconite railroad fund are subtracted while the taconite referendum money is in addition to state aid.

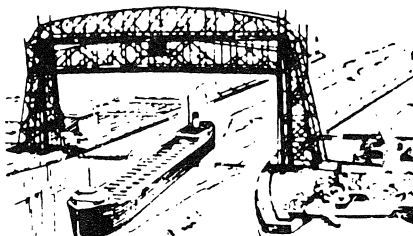


TABLE 6 -- SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1975	1980	1981	1982	1983	1984
City & Township	\$ 936,388	\$ 1,353,460	\$ 1,382,071	\$ 1,361,734	\$ 1,362,133	\$ 1,192,100
Taconite Municipal Aid	3,399,588	6,810,913	6,776,025	6,701,700	6,701,700	5,855,757
School District - Regular	10,396,319	3,304,789	3,383,849	3,336,407	3,336,709	2,920,098
School District Fund	-0-	12,735,853	12,670,617 ^a	12,531,638 ^a	12,531,638	10,967,343
Taconite Referendum Fund	-0-	-0-	4,198,133	3,866,675	3,867,247	3,958,435
County	3,771,167	10,809,240	11,891,939	11,756,167	11,814,390	10,437,393
County Road & Bridge	591,524	2,784,744	3,056,888	3,028,085	3,043,061	2,688,626
Taconite Prop. Tax Relief	8,688,442	17,351,585	19,317,006 ^a	15,684,072 ^a	13,261,767	8,884,109
State	240,363	480,280	550,897	544,853	544,853	343,974
I.R.R.R.B. (\$.03 Indexed)	1,073,275	2,001,839	2,265,289	2,150,722	2,161,750	1,958,162
Range Association of Municipalities & Schools	-0-	110,747	110,181	108,972	108,972	95,003
Taconite Railroad (Fixed)	-0-	3,160,899	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	1,252,520
710 School Bond Payment	-0-	-0-	-0-	240,000	240,000	240,000
Filtration Fund	1,250,000	-0-	-0-	-0-	-0-	-0-
Taconite Environmental Protection Fund	-0-	15,663,492	19,736,911	11,785,651	6,029,799	8,719,590
N.E. Minnesota Economic Protection Fund	-0-	9,358,171	9,265,064	2,793,123	(2,076,400)	1,840,246
TOTAL:	\$30,347,066	\$87,178,532	\$99,018,289	\$80,303,218	\$67,341,038^b	\$64,514,255^c

*The production tax is collected and distributed in the year following production, e.g., the 1984 production tax was collected and distributed during 1985.

- 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.
- c) Total after the school bond, filtration plant and Erie II court case and prior year tonnage correction credits have been taken.

TABLE 7 — TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS — 1985*

<u>Cities & Townships</u>	<u>Mining & Concentrating</u>	<u>Taconite** Railroad</u>	<u>Taconite Municipal Aid</u>	<u>Total</u>
Aurora	\$ 1,720	\$ ---	\$ 153,081	\$ 154,801
Babbitt	98,871	166,767	190,367	456,005
Biwabik	---	---	80,448	80,448
Bovey	---	---	45,801	45,801
Buhl	---	---	72,336	72,336
Calumet	---	---	26,422	26,422
Chisholm	---	---	334,074	334,074
Coleraine	---	---	62,871	62,871
Crosby	---	---	124,954	124,954
Ely	---	---	271,541	271,541
Eveleth	44,358	---	287,128	331,486
Franklin	3,800	---	1,521	5,321
Gilbert	---	---	154,694	154,694
Hibbing	257,148	---	1,216,430	1,473,578
Hoyt Lakes	155,805	152,153	260,657	568,615
Ironton	---	---	30,252	30,252
Keewatin	21,389	---	88,568	109,957
Kinney	5,263	---	25,182	30,445
Leonidas	2,985	---	5,352	8,337
Marble	---	---	42,647	42,647
McKinley	---	---	12,957	12,957
Mountain Iron	299,963	---	360,176	660,139
Nashwauk	13,026	---	87,000	100,026
Riverton	---	---	6,310	6,310
Silver Bay	93,672	152,706	214,992	461,370
Taconite	---	---	18,647	18,647
Trommold	---	---	4,732	4,732
Virginia	18,346	---	625,335	643,681
Balkan Township	---	---	52,618	52,618
Bass Brook Township	---	---	105,405	105,405
Bassett Township	---	11,745	---	11,745
Beaver Bay Township	---	12,565	---	12,565
Biwabik Township	---	---	58,252	58,252
Breitung Township	---	---	52,562	52,562
Crystal Bay Township	---	6,951	---	6,951
Fayal Township	3,449	---	122,531	125,980
Grand Rapids Township	---	---	179,093	179,093
Great Scott Township	8,646	---	34,970	43,616
Greenway Township	16,590	---	71,688	88,278
Irondale Township	---	---	47,153	47,153
Lone Pine Township	5,434	---	2,464	7,898
McDavitt Township	59,521	---	38,411	97,932
Nashwauk Township	15,081	---	53,058	68,139
Rabbit Lake Township	---	---	10,366	10,366
Schroeder Township	---	47,700	18,309	66,009
Silver Creek Township	---	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
White Township	30,840	---	152,291	183,131
Wolford Township	---	---	9,859	9,859
Wuori Township	36,193	---	42,252	78,445
TOTALS:	\$ 1,192,100	\$ 591,142	\$ 5,855,757	\$7,638,999

* All distributions in 1985 result from 1984 production year tax revenues.

** 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 — 1985*

County	Regular County		County Road & Bridge		Taconite Railroad	Total
	15.5-cents	Escalated	4-cents	Escalated		
Cook	\$	105,259	\$	--	\$187,190	\$ 292,449
Itasca		639,987		165,166	--	805,153
Lake		800,513		206,603	243,034	1,250,150
St. Louis		<u>8,891,634</u>		<u>2,316,857</u>	<u>354,153</u>	<u>11,562,644</u>
TOTAL:		\$10,437,393		\$2,688,626	\$784,377	\$13,910,396

*Distribution in calendar year 1985 is based on 1984 production year.

TABLE 9 — TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS — 1985*

School Districts	Taconite		Taconite Railroad	Taconite Referendum	Total
	\$.06	\$.23			
1 - Aitkin	\$ --	\$ 760,062	\$ --	\$ 140,410	\$ 900,472
166 - Cook County	59,054 ¹	321,033	427,383	56,732	864,202
182 - Crosby - Ironton	--	615,011	--	175,762	790,773
316 - Coleraine	90,827	470,206	--	263,340	824,373
318 - Grand Rapids	--	2,334,032	--	435,921	2,769,953
319 - Nashwauk - Keewatin ^{2,3}	148,363	263,518	--	126,658	538,539
381 - Lake Superior	224,813	711,873	552,774	361,315	1,850,775
691 - Aurora - Hoyt Lakes	378,059	404,478	345,802	232,248	1,360,587
692 - Babbitt ⁴	237,290	168,058	459,421	140,914	1,005,683
693 - Biwabik	74,018	215,145	--	54,521	343,684
694 - Buhl ⁷	33,381	151,615	--	65,122	250,118
695 - Chisholm	--	272,486	--	179,487	451,973
696 - Ely	--	310,320	--	134,297	444,617
697 - Eveleth	121,903	335,419	--	194,209	651,531
699 - Gilbert	--	145,250	--	92,901	238,151
701 - Hibbing	549,615	1,079,289	--	518,921	2,147,825
703 - Mt. Iron ^{5,7}	719,912	354,701	--	113,824	1,188,437
706 - Virginia	140,012	593,951	--	272,535	1,006,498
708 - Tower - Soudan	--	327,271	--	42,696	369,967
710 - St. Louis County ⁶	<u>142,851</u>	<u>1,133,625</u>	<u>--</u>	<u>356,622</u>	<u>1,633,098</u>
	\$2,920,098	\$10,967,343	\$1,785,380	\$3,958,435	\$19,631,256

* - Distribution in calendar year 1985 is based on 1984 production year.

- 1) - Erie Power Plant distribution
- 2) - Butler Taconite received school bond credit of \$38,180 for school bond payment.
- 3) - National Steel received school bond credit of \$92,573 for school bond payment.
- 4) - Reserve Mining received school bond credit of \$34,263 for school bond payment.
- 5) - U. S. Steel received school bond credit of \$609,849 for school bond payment.
- 6) - S.D. 710 received school bond payment of \$240,000 from Commissioner of Revenue.
- 7) - Mt. Iron and Buhl consolidated into School District No. 712 on July 1, 1985.

TABLE 10 — TACONITE PRODUCTION AND TAX REVENUE — BY FIRM

PRODUCTION YEAR 1984

<u>Firm</u>	<u>Production Tons</u>	<u>Taxable Tonnage¹</u>	<u>Tax Rate²</u>	<u>Production Tax Revenue³</u>
Butler	1,989,952	1,989,952	\$2.1107885	\$ 3,911,262
Erie ⁴	4,696,117	4,696,117	2.1034173	5,842,623
Eveleth	3,932,117	3,932,117	2.1016155	7,939,637
Hibbing	6,075,049	6,075,049	2.1124266	12,435,788
Inland	2,032,164	2,032,164	2.1158665	4,069,686
National	4,584,782	4,584,782	2.1098057	8,901,724
Reserve	3,666,288	3,666,288	2.1007964	6,127,993
U. S. Steel	<u>8,712,123</u>	<u>8,712,123</u>	<u>2.1040725</u>	<u>15,285,542</u>
TOTAL:	35,688,592	35,688,592	\$2.1065837	\$ 64,514,255

ESTIMATED FOR PRODUCTION YEAR 1985

<u>Firm</u>	<u>Production Tons</u>	<u>Taxable Tonnage⁵</u>	<u>Tax Rate²</u>	<u>Production Tax Revenue³</u>
Butler	950,000	1,469,976	\$2.0475599	\$ 2,807,519
Erie	4,800,000	4,748,059	2.0475599	8,948,169
Eveleth	3,000,000	3,466,059	2.0475599	6,839,893
Hibbing	5,000,000	5,537,525	2.0475599	11,023,077
Inland	2,000,000	2,016,082	2.0475599	3,976,889
National	4,000,000	4,292,391	2.0475599	8,264,213
Reserve	3,200,000	3,433,144	2.0475599	6,029,003
U. S. Steel	<u>9,500,000</u>	<u>9,106,062</u>	<u>2.0475599</u>	<u>16,424,102</u>
TOTAL:	32,450,000	34,069,298	\$2.0475599	\$64,312,865

- 1) The 1984 taxable tonnage was the 1984 production year tonnage.
- 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 1984 production year was 1.6380479. This base rate (\$2.0475599) will be frozen for the 1984, 1985 and 1986 production years. 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, the 1984 court settlement credits, and the water filtration plant credit have been taken.
- 4) Erie had a tonnage correction for the 1978 - 1983 production year. As a result, a credit of \$2,716,034 was applied to the 1984 production year.
- 5) The 1985 taxable tonnage is the average production tonnage of the 1984 and 1985 production years.

**TABLE 11 - TACONITE PRODUCED (THOUSANDS OF TONS) AND
PRODUCTION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1985**

<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	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 <u>before</u> any credits are applied).	
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	35,689	74,156 ^c	2.078	35,689	2.107
1985 est.	32,450	68,741 ^d	2.118	34,069	2.048

- a) Production tax revenue does not include school bond payments by some companies or filtration plant credits. School Bond Credits (1984) -- \$774,865; 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.
- d) Production tax "revenue" for 1985 includes \$4,428,512 which will be returned to the industry as a credit for overpayments and interest due to the negotiated settlement of the production tax court cases.

TABLE 12

SUMMARY OF THE 1984 PRODUCTION TAX

<u>Firm</u>	<u>Production Tonnage</u>	<u>Tax Rate</u>	<u>Total Tax Before Credits</u>	<u>Erie II Court Case Credits</u>	<u>School Bond Credits</u>	<u>Prior Year Tonnage Correction Credits</u>	<u>Filtration Plant Credits</u>	<u>Net Tax Collected</u>
Butler	1,989,952	\$2.1107885	\$ 4,200,368	\$ 250,926	\$ 38,180	\$ -0-	\$ -0-	\$ 3,911,262
Erie	4,696,117	2.1034173	9,877,894	1,319,237	-0-	2,716,034	-0-	5,842,623
Eveleth	3,932,117	2.1016155	8,263,798	324,161	-0-	-0-	-0-	7,939,637
Hibbing	6,075,049	2.1124266	12,833,095	397,307	-0-	-0-	-0-	12,435,788
Inland	2,032,164	2.1158665	4,299,788	230,102	-0-	-0-	-0-	4,069,686
National	4,584,782	2.1098057	9,672,999	678,702	92,573	-0-	-0-	8,901,724
Reserve	3,666,288	2.1007964	7,702,125	1,289,869	34,263	-0-	250,000	6,127,993
U.S. Steel	<u>8,712,123</u>	<u>2.1040725</u>	<u>18,330,938</u>	<u>2,435,547</u>	<u>609,849</u>	<u>-0-</u>	<u>-0-</u>	<u>15,285,542</u>
Totals:	35,688,592	\$2.1065837	\$75,181,005	\$6,925,851	\$774,865	\$2,716,034	\$250,000	\$64,514,255

PRODUCTION TAX CREDITS RESULTING FROM THE ERIE II COURT CASEPRODUCTION YEAR

<u>FIRM</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>TOTAL</u>
Butler	\$ 250,926	\$ 164,348	\$ 156,396	\$ 148,444	\$ 140,491	\$ 860,605
Erie	1,319,237	773,766	736,326	698,884	661,444	4,189,657
Eveleth	324,161	257,070	244,632	232,194	219,754	1,277,811
Hibbing	397,307	315,337	300,079	284,820	269,562	1,567,105
Inland	230,102	151,160	143,846	136,532	129,217	790,857
National	678,702	432,585	411,653	390,723	369,790	2,283,453
Reserve	1,289,869	750,565	714,247	677,930	641,613	4,074,224
U.S. Steel	<u>2,435,547</u>	<u>1,583,681</u>	<u>1,507,051</u>	<u>1,430,420</u>	<u>1,353,792</u>	<u>8,310,491</u>
Totals:	\$6,925,851	\$4,428,512	\$4,214,230	\$3,999,947	\$3,785,663	\$23,354,203

The credits consist of all interest to date plus one-fifth of the initial principal and will be paid back by not collecting that amount of money from each firm. The production year credits will be applied to the taxes payable in the following year. For example, the 1984 production year credits will be applied to the taxes payable in 1985.

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.

*The 1985 legislature allowed as a deduction "the amount of the ad valorem taxes levied and paid for the year against the realty in which the ore is deposited."

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, initially six percent in 1921, has varied over the years. Currently, the rate is 15 percent for all ores mined or produced before January 1, 1986. Legislative changes reduce the rate to 14.5 percent for ores mined in 1986 and 14 percent for ores mined in 1987 and subsequent years.

OCCUPATION TAX CREDITS

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

	Net Effective Rate (After Labor Credit)	1984 Occupation Tax Due
<u>Taconite Company</u>		
Butler Taconite Company	6.75%	\$ 1,512,978
Erie Mining Company	6.75%	3,930,005
Eveleth Mines	6.75%	-0-
Hibbing Taconite Company	10.96%	10,130,427
Inland Steel Mining Co.	8.20%	275,892
National Steel Pellet Co.	8.76%	4,751,179
Reserve Mining Company	6.75%	-0-
U. S. Steel (Minntac)	7.92%	<u>9,314,873</u>
TOTAL TACONITE OCCUPATION TAX DUE:		<u>\$29,915,354</u>
<u>Natural Ore Company</u>		
LTV Steel Company	14.54%	\$ 379,536
Rhude & Fryberger, Inc.	15.12%	<u>62,149</u>
TOTAL NATURAL ORE OCCUPATION TAX DUE:		<u>\$ 441,685</u>

Beginning with 1985, both taconite and natural ore producers benefit from the labor credit which reduces the net effective occupation tax rate from 15 percent to a minimum of 6.75 percent. This rate will decrease with the occupation tax rate to a minimum of 6.25 percent in 1986 and 5.75 percent in 1987 and subsequent years. This net effective occupation tax rate also applies to royalty taxes for operating mines. 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 loss mine credit for mining costs exceeding the value of ore. Small independent iron ore producers are allowed a discount credit for selling ore below the quoted Lake Erie Value of the ore. 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 in the general fund. The only other distribution of occupation tax is one-cent per ton to the I.R.R.R.B. This is designated for the Region 3 fund, which must be used for environmental development grants in Region 3 - Northeastern Minnesota.

TABLE 13
IRON ORE AND TACONITE PRODUCED IN MINNESOTA (THOUSANDS OF TONS)
AND OCCUPATION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1985*

Year	<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	1,341	\$ 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
1984	850	442	35,689	29,915**	36,538	30,357
1985 est.	1,450	500	32,450	18,000**	33,900	18,500

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

**Adjusted by provisions of M.S. 298.40.

TABLE 14
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 Benefi- ciation</u>	<u>(2) Transpor- tation</u>	<u>Develop- ment</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 Due</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
1984	35,689	56.480	20.107	13.025	1.997	3.760	.737	3.430	1.104	1.691	10.629	.838

(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 25-cent per ton production tax deduction allowance for each year.

TABLE 15
OCCUPATION TAX REPORT PER TON COSTS
BENEFICIATION AND MINING — TACONITE ONLY

(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	\$232,195	\$4.703	\$583,411	\$11.817	\$197,150	\$3.994	\$.473	\$20.987
1982	23,445	\$153,361	\$6.541	\$366,730	\$15.642	\$188,239	\$8.029	\$.795	\$31.007
1983	25,173	\$158,209	\$6.285	\$325,389	\$12.926	\$184,617	\$7.334	\$.079	\$26.624
1984	35,689	\$112,415	\$3.150	\$419,708	\$11.760	\$173,211	\$4.853	\$.088	\$19.851
Occ. Tax Report		Line 3A		Line 3B		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	\$107,643	\$2.180	\$132,754	\$2.689	\$4.869	.646	\$5.515
1982	23,445	\$ 56,247	\$2.399	\$ 57,952	\$2.472	\$4.871	1.357	\$6.228
1983	25,173	\$ 49,284	\$1.958	\$ 44,428	\$1.765	\$3.723	1.229	\$4.952
1984	35,689	\$ 60,957	\$1.708	\$ 63,600	\$1.782	\$3.49	.737	\$4.227
Occ. Tax Report		Line 9A		Line 9B			Line 9C	

All numbers not on Line 3 or Line 9 of the Occupation Tax Report have been eliminated.

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. Table 16 - M.S. 298.40 Credit Summary provides details on credits and taxes not collected.

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. The 1985 legislature authorized refunds of overpayments beginning with taxes payable in 1985.

Refunds were statutorily prohibited for all prior years, thus overpayments (credits) continue to be returned 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.

The 1985 legislature also authorized refunding of prior year credits in 1986 and 1987, one-half of remaining balance paid on July 1 CONTINGENT upon a budget reserve of \$450 million. The same refund procedure was authorized for 1988 and 1989 without the contingency provision.

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. 1985, (June 30, 1985), approximately \$16.6 million exceeded the M.S. 298.40 limitation and was not collected. As of June 30, 1985, credits owed to the mining industry in the accounts payable exceeded \$31 million. An additional \$38 million in taxes has not been collected since 1981 to "repay" credits owed to the taconite industry. The M.S. 298.40 credit summary provides more details on credits and 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 Limitation</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>	<u>M.S. 298.40 Credit Due</u>
1980	15,910,944	(2,103,345)	13,807,599	-0-	13,807,599	(2,792,456)
1981	17,175,966	(4,468,413)	12,707,553	(1,335,265)	11,372,288	(3,339,239)
1982	6,200,496	(2,852,661)	3,347,835	(3,347,835)	-0-	(2,829,758)
1983	11,401,855	(4,016,073)	7,385,782	(4,999,484)	2,386,298	(1,702,219)
1984	33,061,342	(3,145,988)	29,915,354	(19,309,767)	10,605,587	(1,775,324)*
1985 est.	21,000,000	(3,000,000)	18,000,000	(8,000,000)	10,000,000	(1,000,000)*

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	7,110,166	(4,283,181)	2,826,985
1985 est.	6,000,000	(3,600,000)	2,400,000

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	1,678,295	(1,678,295)	-0-
1985 est.	1,400,000	(890,000)	510,000

* This amount refunded when occupation tax due.

(1) 1980-1984 Occupation Tax exceeding M.S. 298.40 limitation (not collected)	\$16,586,480
(2) 1981-1984 Occupation Tax applied to M.S. 298.40 credits (not collected)	\$28,992,351
(3) 1982-1984 Sales Tax applied to M.S. 298.40 credits (not collected)	\$ 7,647,047
(4) 1983-1984 Railroad Tax applied to M.S. 298.40 credits (not collected)	\$ 1,678,295

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.

The Department uses a five-year average for allowable costs taken from the occupation tax report each year. A five-year average of the Lake Erie Market Value of iron ore is also used. These averages are used to help reduce fluctuation of value due to sudden cost-price changes.

The following expenses are allowed as a deduction from the Lake Erie Market Value on the computation of present worth (Hoskold Formula):

- | | |
|--|--|
| 1a. Mining, normal costs | 6. Freight and Marine Insurance |
| 1b. Mining, special costs | 7. Marketing Expense |
| 2. Beneficiation | 8. Social Security Tax |
| 3. Miscellaneous (property tax, medical insurance, etc.) | 9. Ad Valorem Tax (by formula) |
| 4. Development (future) | 10. Occupation Tax |
| 5. Plant and Equipment (future) | 11. Federal Income Tax |
| | 12. Interest on Development, Plant and Working Capital |

These 12 allowable expense items are deducted from the Lake Erie Market Value to give the Estimated Future Income (per ton). It should be noted that although royalty is allowable as an occupation tax deduction, it is not allowable on Minnesota's ad valorem tax.

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. This factor is currently .33971 and is determined by the dual interest rate Hoskold Formula. The Department presently allows a 12 percent risk rate and six percent safe rate which yields the .33971 factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves.

The final step in determining the assessed value is to apply the statutory assessment ratio (50 percent for iron ore, 43 percent for other minerals). For iron ore, the resulting rate per ton is multiplied by three to determine the value of unmined ore as specified by M.S. 273.1104.

Since 1963, the Revenue Department has tried to maintain all ores on the tax rolls, including the uneconomic, underground, and unavailable classifications. A schedule of minimum rates was established in 1963 and a major revisions was made in 1974.

The 1974 schedule is currently in use and is listed below:

	<u>CLASSIFICATION</u>	<u>UNIT PRICE RATIO</u>
<u>Open Pit</u> (Stripping ratio less than five to one)	Merch Ore	\$.009276
	Wash Ore	.004992
	Heavy Media Ore	.003865
	Paint Rock Ore	.002495
<u>Underground and Uneconomic</u> (Stripping ratio five to one or greater)	Merch Ore	\$.001546
	Wash Ore	.000832
	Heavy Media Ore	.000644
	Paint Rock Ore	.000416

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

Thus, the rate per ton for an underground wash ore with a rice ratio of 9.24 would be calculated as follows: $9.24 \times .000832 = \$.00769$ per ton valuation. The value of the unmined ore for tax purposes is then multiplied by three, 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	2,193,940	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
1985	1,446,983	1,879,307	3,326,290

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.

Iron ore ad valorem taxes are expected to continue their long decline with a drop occurring in three to four years when the Donora orebody is exhausted.

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:

PERIOD COVERED

DUE

January 1 - June 30
July 1 - December 1

On or before September 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>	<u>Total Tax Collected</u>
1977	\$1,509,773	-0-	\$1,509,773
1978	\$3,267,250	-0-	\$3,267,250
1979	\$3,634,407	-0-	\$3,634,407
1980	\$2,983,819	-0-	\$2,983,819
1981	\$4,960,605	-0-	\$4,960,605
1982	\$1,354,173	-0-	\$1,354,173
1983	\$ 926,207	\$ 640,512	\$ 285,695
1984	\$1,678,295	\$1,678,295	-0-
1985 (est.)	\$1,400,000	\$ 890,000	\$ 510,000

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 semi-taconite mining of taconite and semi-taconite is 15 percent. A credit which reduces the 15.00 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.

As with the occupation tax, beginning with 1985 production, the royalty tax rate on the exploration and mining of iron ore is reduced to 15.00 percent. More significantly, the same labor credits now 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.

Effective January 1, 1986, the occupation and royalty tax rate on both taconite and natural ore will be reduced to 14.50 percent. After applying the labor credit, the net effective rate may be lowered to a minimum of 6.25 percent. Beginning January 1, 1987, the tax rate will again be lowered. The new rate will be 14.00 percent and, after the labor credit is applied, may possibly be lowered to a minimum of 5.75 percent.

The tax rate or labor credit provisions applicable to the mining of base or precious metals has been changed. The royalty tax rate which would apply to the mining or production of all other ores, including base or precious metals, is 15.00 percent. A special labor credit is available which would probably reduce the rate for all mines to about 6.75 percent. The scheduled rate reductions mentioned above for taconite and natural ore also apply to base and precious metals. A lower royalty tax rate (one percent) may apply during the exploration phase and is explained in the section on Copper-Nickel mining.

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". For all mines, open pit as well as underground, the rate will be the same as the minimum occupation tax rate.
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 nonresident recipients (individuals, partnerships, and corporations) 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.

For those who file a Minnesota Income Tax Return, royalty must be included as income. For those nonresident royalty recipients who have not filed a return, income received from Minnesota--including royalty--may have to be reported. General filing requirements for Minnesota income tax are as follows:

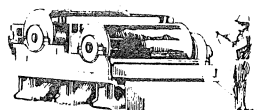
A Minnesota Income Tax Return must be filed if:

- You are SINGLE and your Minnesota gross income is over \$3,100.
- You are MARRIED and your combined Minnesota gross income is over \$5,200.

Additional exemptions are available for persons over 65 and also for the blind.

Royalty received may qualify for the capital gains treatment if the fee owner has owned the property generating royalty income one year or more.

For more specific filing requirements, contact: Minnesota Department of Revenue at 1-800-652-9094 or 612-296-3781. Send written inquiries to: Minnesota Department of Revenue, Income Tax Division, P.O. Box 64452, St. Paul, MN 55164.



MAGNETIC SEPARATION

HISTORY: ROYALTY TAX RATE

<u>Natural Ore</u>		<u>Taconite</u>	
1923 - 1936:	6.00%	1948 - 1971:	12.00%
1937:	10.00%	1972 - 1985:	15.00%
1938:	8.00%	1986:	14.50%
1939 - 1940:	9.00%	1987:	14.00%
1941 - 1946:	10.50%		
1947 - 1948:	11.00%		
1949 - 1954:	12.00%		
1955 - 1958:	13.65%		
1959 - 1971:	14.25%		
1972 - 1984:	15.50%		
1985:	15.00%		
1986:	14.50%		
1987:	14.00%		

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
1984	536	4,564	7	5,107

*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 Guides, 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.

M.S. 298.40			
YEAR	SALES TAX	OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	SALES TAX COLLECTED
1975	\$ 7,214,111	-0-	\$ 7,214,111
1976	7,446,168	-0-	7,446,168
1977	7,375,115	-0-	7,375,115
1978	8,573,835	-0-	8,573,835
1979	12,590,481	-0-	12,590,481
1980	9,231,156	-0-	9,231,156
1981	10,535,427	-0-	10,535,427
1982	7,338,653	750,261	6,588,392
1983	5,808,237	2,613,605	3,194,632
1984	7,110,166	4,283,181	2,826,985
1985 (est.)	6,000,000	3,600,000	2,400,000

Sales Tax Rate History

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

SCHEDULE OF 1985 SHUTDOWNS BY COMPANY

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Butler												
Erie												
Eveleth												
Hibbing												
Inland												
National Reserve												
U.S.S.												

— Shutdown

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.

TABLE 18 - TAX COLLECTIONS ON UNMINED TACONITE (YEAR ASSESSED)*

<u>County</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

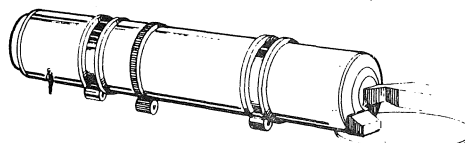
Severed mineral interests are subject to local property taxation and constitute Class 1B. Severed mineral interests are taxed at a rate of \$.25 per acre with an undivided interest tax calculated at 25-cents-per-acre times the fractional interest owned. The minimum tax on any mineral interest (usually 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 distributed as follows: twenty percent to the State Treasurer to be deposited in a special account "Indian Business Loan Account" and distributed under the provisions of M.S. 116J.64, which is administered by the Indian Affairs Council. The balance will be 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.

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.

<u>Fiscal Year</u> <u>Ending</u>	<u>Total Collections</u> <u>of Affected Counties</u>	<u>Payment to</u> <u>Indian Business</u> <u>Loan Account</u>
June 1980	\$276,655	\$ 55,331
June 1981	\$198,096	\$ 39,619
June 1982	\$339,635	\$ 67,927
June 1983	\$343,169	\$ 68,634
June 1984	\$548,797	\$109,759
June 1985	\$410,416	\$ 82,083



HEAT HARDENING

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. Interest has been 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 and probably much longer.

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. No tax on state leases.
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.

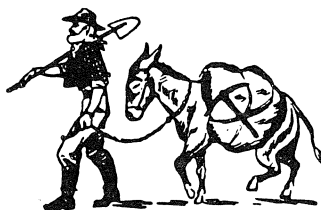
The proceeds of the occupation tax are to be distributed 50 percent to the general fund; 40 percent for the support of elementary and secondary schools, and 10 percent for the general support of the University.

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 (15.0 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. Any lease which is not specifically for iron ore, taconite or uranium will be classified as a copper-nickel lease.
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 15.0 percent or the applicable net effective occupation tax rate. This rate will not be adjusted retroactively.



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 percent for all ores mined or produced before January 1, 1986. The rate drops to 14.5% for ores mined in 1986, and 14 percent for ores mined in 1987 and subsequent years. However, a special labor credit is available which could reduce the net effective rate for an active mine to a minimum of 6.75 percent. This rate will fall with the occupation tax rate and will be 5.75 percent for ores mined in 1987 and subsequent years. This net effective occupation tax rate also applies to royalty taxes for operating mines. This tax is normally paid in lieu of corporate income tax.

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 industrial production exemptions 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 percent, the same as the occupation tax (scheduled reductions will drop this to 14 percent by 1987). 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.

There are some special rules and policies which apply to copper-nickel prospecting and mining leases issued by the Department of Natural Resources. DNR Rules 6 MCAR 1.0094C state that the prospecting permit covers the first two years of the lease. The Commissioner of Revenue has advised all county auditors and assessors that copper-nickel prospecting and mining leases issued by the Department of Natural Resources constitute a taxable interest in real estate. However, the Commissioner further advised that due to the limited nature of the lease interest, the ad valorem tax should not exceed \$.25 per acre during the exploration stage. It is possible for the exploration period to extend beyond the initial two-year period. You will have to contact the Department of Natural Resources to determine the status of any leases remaining in effect beyond the initial two years. Specific terms of the leases may vary, but the tax is to be determined based upon the number of acres made available to the lessee and the fractional interest, if any, that is leased.

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.

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, ben- eficiation 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 24 -- ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

JANUARY	FEBRUARY	MARCH	APRIL
<ul style="list-style-type: none"> -- Ad Valorem Tax Reports mailed to companies. -- Ad Valorem estimates submitted by companies (January - June). 31 -- Quarterly royalty checks and reports from companies usually received in January, April, July and October. 	<ul style="list-style-type: none"> 1 -- Royalty Paid Report by companies due in Division office. 1 -- Royalty Received Report from recipients due in Division office. 15 -- Ninety percent of the Taconite Production Tax based on actual production due in county offices. 25 -- Complete distribution of the Taconite Production Tax to the taxing districts by the counties. 	<ul style="list-style-type: none"> 1 -- Railroad Gross Earnings Report and payment due in Division office for July to December of previous year. 1 -- Occupation Tax Report due from companies. 15 -- Taconite Production Tax final 10% tax figure with adjustments mailed to companies. 	<ul style="list-style-type: none"> 1 -- Owner or lessee of mineral rights submits specified data on drill hole logs and lab tests during previous year for Unmined Taconite Tax. 15 -- Final Taconite Production Tax payment due in the county offices.
MAY	JUNE	JULY	AUGUST
<ul style="list-style-type: none"> 1 -- Tentative Determination for Occupation Tax mailed by the Division. 15 -- If a disagreement exists, a formal written protest to the Occupation Tax Tentative Determination must be filed. 15 -- Formal hearing held, if necessary. 15 -- Final Taconite Production Tax aid payments made to taxing districts by the counties. 15 -- Ad Valorem Tax Reports due from mining companies. 	<ul style="list-style-type: none"> 1 -- Final Occupation Tax Determination mailed to companies. 14 -- Full Occupation Tax payment due in Minerals Tax Division office. 	<ul style="list-style-type: none"> 15 -- Taconite Referendum distribution of Taconite Production Tax made by the Division. 	
SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
<ul style="list-style-type: none"> 1 -- Railroad Gross Earnings Report and payment due in Division office January to June. 15 -- Ad Valorem Tax present worth estimates mailed to companies. 15 -- Taconite Municipal Aid account funds distributed. 	<ul style="list-style-type: none"> 10 -- Taconite Production Tax estimates due from companies. -- Hearing on Ad Valorem mineral taxes held first secular day after October 10. 	<ul style="list-style-type: none"> 1 -- Ad Valorem Tax final adjustments to property equalization sheets to county assessors. 	<ul style="list-style-type: none"> 1 -- Division submits Unmined Taconite Tax Reports to county assessors. 30 -- Occupation Tax forms mailed to companies. 30 -- Royalty Paid Tax Report forms mailed to companies. 30 -- Royalty Received Report forms mailed to royalty recipients.

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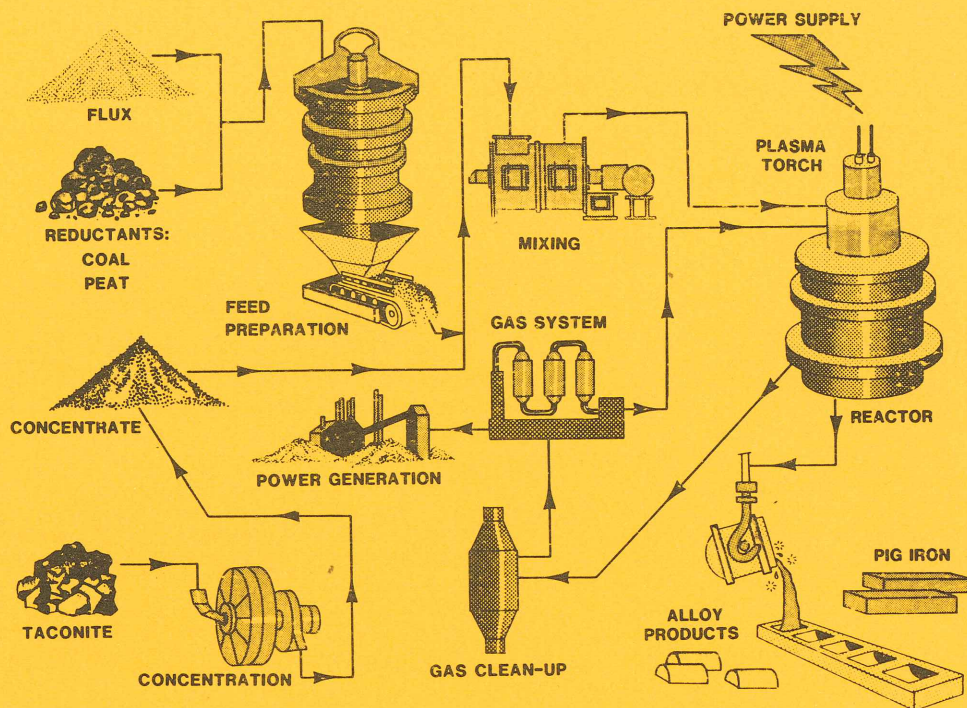
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Mesabi Metal



MINNESOTA'S IRON MAKING POTENTIAL

KR Plant Basic Flow Sheet

