Minnesota

MINING TAX GUIDE

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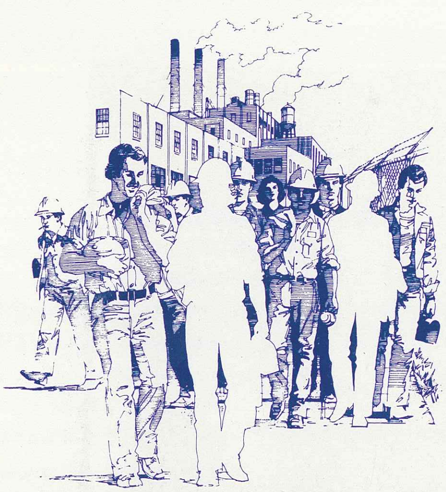


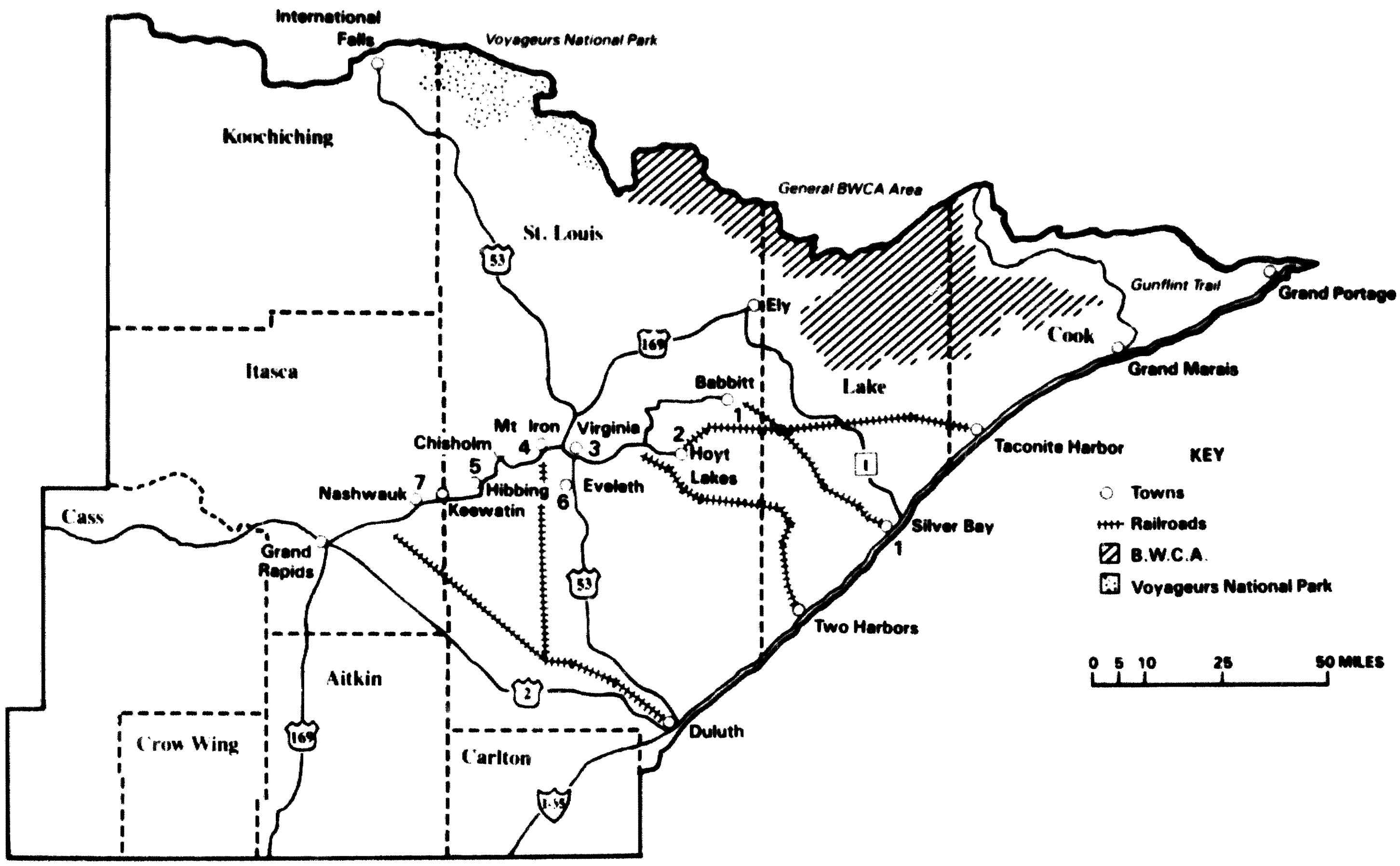
Minerals in Minnesota.

Department of Revenue
Minerals Tax Office

DECEMBER 1987

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity (million tons)
(1) **RESERVE MINING COMPANY**	0[a]
Pickands Mather Services, Inc., Managing Agent	
Owners: Armco, Inc. (50%)	
LTV Steel (50%)	
(2) **LTV STEEL MINING COMPANY**	8.0[b]
Pickands Mather Services, Inc., Managing Agent	
Owners: LTV Steel (100%)	
(3) **MINORCA PLANT**	2.0
Owner: Inland Steel Mining Co. (100%)	
(4) **MINNTAC PLANT**	12.5
No Managing Agent	
Owner: USX Corporation (100%)	
(5) **HIBBING TACONITE COMPANY**	8.1
Pickands Mather Services, Inc., Managing Agent	
Owners: Bethlehem Steel Co. (70.3%)	
Pickands Mather & Co. (15%)	
The Steel Company of Canada, Ltd. (14 7%)	

	Effective Capacity (million tons)
(6) **EVELETH MINES***	3.5
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%)	
Owners: 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)	
(7) **NATIONAL STEEL PELLET COMPANY**	4.5
M.A Hanna Company, Managing Agent	
Owner: National Steel Corp. (100%)	
National Steel Corporation Ownership:	
National Intergroup (50%)	
Nippon Kokan KK (50%)	
Total Effective	38.6

(a) The operation status of Reserve for 1987 is unknown. On July 17, 1986, LTV (50% owner) filed for bankruptcy under Chapter 11 and Reserve operations were shut down indefinitely. On August 7, 1986 Reserve Mining Company also filed for bankruptcy under Chapter 11 and First Taconite Company (50% owner) followed with their filing.

(b) LTV is continuing to operate Erie Mining Company under Chapter 11 of the bankruptcy laws.

* The second percentage denotes the percentage of ownership of the total company.

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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, and has been updated annually since 1982. The original Minnesota Mining Tax Guide was published by the Department of Revenue Research Office in April 1977 and revised in July 1978.

The artwork for the front and back covers and inside pages provided by Barber Graphics, Virginia, MN.

LIST OF TABLES

INTRODUCTION

During 1986, the Governor of Minnesota appointed a task force to review Minnesota's entire tax structure with the goal of simplification and reform. A subcommittee, which was a part of the overall task force, reviewed all existing taxes on taconite, natural ore, and other minerals. The subcommittee made recommendations to the governor that were designed to aid the existing taconite and natural ore industry and also encourage exploration and development of other minerals. The broad goal of the subcommittee was to stabilize the long-term economic base of northern and rural Minnesota.

The governor adopted most of the minerals tax subcommittee's recommendations and included them with this overall tax reform proposal to the 1987 legislature. The Minnesota Legislature approved a significant reform of the state's mining tax laws during the 1987 session.

Beginning in 1990, taconite mining operations in Minnesota will be subject to the corporate franchise tax, and the present occupation, royalty, and taconite railroad taxes will be repealed. A new net proceeds tax on minerals other than taconite and iron ore was also adopted. Perhaps the most significant change was the elimination of the ad valorem tax on ore reserves for minerals other than taconite and iron ore. It is hoped that this will provide added incentive to explore for minerals in Minnesota.

In support of the goal to reduce and simplify mining taxes, the subcommittee cited a study by Whitney & Whitney, Inc., of Reno, Nevada. The study, "Impact of State Taxation on the Mining Industry — A Study of 15 States," compared state taxation of mining projects using six hypothetical mine models. The states included in the comparison were: Alaska, Arizona, California, Colorado, Idaho, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, Oregon, Tennessee, Utah, and Washington. The study found that Minnesota had the highest tax burden of the 15 states in five out of the six mining scenarios.

However, the subcommittee noted Whitney & Whitney had made some errors in calculating the occupation and property taxes for Minnesota. While adjusting for these errors would probably drop Minnesota out of the top spot, Minnesota would still be grouped with other high tax states and thus remain uncompetitive. The confusion of Whitney & Whitney in how to apply Minnesota mining tax laws also served as evidence of the unusually complex nature of these laws.

Based upon this study and its observations, the subcommittee concluded that Minnesota's mining tax laws were in need of reform. In previous editions of the Mining Tax Guide there have been separate sections covering Copper-Nickel Mining and Taxes on Other Mining and/or Exploration. These are now combined in a single section due to the reforms passed by the 1987 Legislature.

OUTLOOK

Taconite

The outlook for the taconite industry, as a whole, for the next few years is best described as stable, with total production holding or increasing slightly.

Inland Steel Mining Company has converted to flux pellets at the Minorca Mine in Minnesota and the Empire Mine in Michigan. The company has also converted its steel-making operations in East Chicago to the use of flux pellets. Eveleth Mines began producing fluxed pellets in the latter part of 1986. Other steel producers who own Minnesota taconite plants have either experimented with flux pellets or are considering such a move.

The 1987 legislation included provisions for not including the weight of the flux in the weight of taconite pellets upon which production tax is paid. Flux pellets are taconite pellets which have a limestone additive.

Other Minerals

The major changes in tax laws for the mining and processing of other minerals were recommended ***to encourage exploration and development of other minerals***. The Department of Natural Resources also made some helpful changes in the royalty policy on state-owned lands. Refer to this section in the back of this book.

There has long been exploration for other minerals in Minnesota. According to the Minnesota Geological Survey pamphlet "Gold in Minnesota" by John Splettstoesser, gold has been found in small amounts since 1865. A gold rush to the Lake Vermillion area occurred that year, but only sparse gold was ever found. Gold was discovered in 1893 on Little American Island in Rainy Lake about ten miles east of International Falls. A little more than $5,000 in bullion was produced in 1894 before the mine played out. Small amounts of placer gold have been found in gravel beds on the Zumbro River between Rochester and Mazeppa in Southeastern Minnesota.

Copper-Nickel was discovered in the 1950's, but it has not been economically feasible to mine. Titanium is known to exist. Traces of platinum have been discovered in old Cu-Ni core samples from the Babbitt area. One exploration company is rumored to be looking for diamonds in central Minnesota.

With the recent changes becoming more widely known, the people of Minnesota are hoping for more exploration and possibly the development of mines for some of these minerals.

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: Iron Ore	Percent of Total: Taconite	Total Employment (000's)
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	34,730	4.2	95.8	6.7
1986	26,573	4.2	95.8	5.4
1987 (est.)	31,100	3.5	96.5	5.0

Minnesota's share of total U.S. production has been consistently greater than 60 percent. 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 1980, to 5.2 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] Production Tons (000's)	Minn. %U.S.	U.S.[2] Production Tons (000's)	Minn. %World	World[2] Production Tons (000,000's)
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
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	6.0	845
1982	24,234	68.4	35,433	3.2	768
1983	26,024	69.3	37,562	3.6	726
1984	36,538	71.3	51,269	4.5	817
1985	34,730	71.2	48,751	4.1	845
1986	26,573	65.3	40,700 *	3.1	858 *

*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)

TAX	1980	1981	1982	1983	1984	1985	1986	1987 Est.
Ad Valorem - Unmined Natural Ore (Year Assessed)	$ 3,689	$ 3,770	$ 3,545	$ 3,700	$ 3,326	$ 3,037	$ 2,626	2,200
Occupation - Taconite	13,808 [a]	12,708 [a]	3,348 [a]	7,386 [a]	29,915 [a]	9,907 [a]	6,234 [f]	6,000
Occupation - Natural Ore	1,000	1,232	719	499	442	394	343 [f]	385
Taconite Production	87,179	99,018	80,305	67,341	64,514 [b]	65,092 [c]	48,658 [d]	49,920 [e]
Excise Tax (School Bonds)	138	183	176	824	775	782	699	620
Railroad Gross Earnings - Taconite	2,984	4,961	1,354	926	1,678	1,985	1,671 [f]	1,370
Royalty - Taconite	4,619	5,392	4,093	2,821	4,564	3,576	2,436	2,482
Royalty - Natural Ore	713	429	619	445	536	454	208	275
Unmined Taconite (Year Assessed)	232	240	285	331	321	397	310	310
Sales & Use (Taconite Only)	9,982	9,799	7,828	5,765	7,110	6,477	4,890	6,000
Total: (Taconite Only)	$118,942	$132,301	$ 97,389	$ 85,394	$108,879	$ 88,216	$64,898	$66,702
Tons Produced: (Taconite)	43,060	49,369	23,445	25,173	35,689	33,265	25,451	30,000
Total Taxes Paid on Per Ton Base (Taconite)	2.76	2.68	4.15	3.39	3.05	2.65	2.55	2.22

[a] These numbers reflect taconite tax liability prior to M.S. 298.40 credits (see Table 16).

[b] Actual amount collected after credits are applied. A $6.93 million credit was allowed due to a Minnesota Supreme Court decision on production tax court cases. A $2.72 million credit was 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.

[c] Actual amount collected after credits are applied. A $4.47 million credit was allowed due to a Minnesota Supreme Court decision on production tax court cases. Also, a $0.25 million credit was allowed for construction of a water filtration plant.

[d] Actual amount collected after credits are applied (see Table 12).

[e] Estimated amount after all credits applied (includes approximately $4 million for court case).

[f] Includes pre-petition bankruptcy liability that was not collected.

TABLE 4

MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

Production Year	Unmined Taconite	Sales and Use[a]	Production	Occupation[a]	Royalty	Excise[b]	Railroad Gross Earnings[a]	Total Taxes	Total Tons Produced	Total Taxes Per Ton
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	64,514,255 [c]	29,915,354[d]	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787 [c]	9,906,688[e]	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	310,000	4,890,472	48,657,782 [c]	6,233,533*	2,436,402*	699,422	1,670,756*	64,898,367	25,451,055	2.55
1987 Est.	310,000	6,000,000	49,920,000 [c]	6,000,000	2,482,000	620,000	1,370,000	66,702,000	30,000,000	2.22

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 all credits have been applied. 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. The 1986 production tax is based on the three-year average of production tonnage for 1984, 1985 and 1986.

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 decrease is due to a significant drop in the Lake Erie Value allowed for all companies for the entire year 1985.

* Includes pre-petition bankruptcy liability that was not collected

TABLE 4A -- LAKE ERIE VALUE (Historical Summary)

	NATURAL ORE	TRANSPORTATION COSTS ($/TON)				TACONITE	TRANSPORTATION COSTS ($/TON)		
Year	Lake Erie Value/Ton Mesabi Non-Bessemer	Mine to Boat	Boat to LLPort	Total Transportation	Lake Erie Value Cents Per Natural Iron Unit	Lake Erie Value ($/ton)[a]	Mine to Boat	Boat to LLPort	Total Transportation
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
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]	.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
1985	31.53 [h]	6.73	8.09	14.82	72.50 [i]	47.12	4.98 [j]	8.09 [j]	13.07
1986	31.53 [h]	6.73	8.09	14.82	72.50 [i]	47.14	4.98 [j]	8.09 [j]	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.

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 month winter storage at docks.

N/A - Not Available

h Fines.

i Quoted prices for companies varied from .594 at Lake Superior to .725 or .869 Lake Erie prices. Any price changes occurred in August or September 1985. The Commissioner of Revenue allowed all companies to use .725 for all of 1985 and 1986.

j 1985-86 rail freight quoted in Skillings: 4.98
Occupation Tax Allowance: 4.85
1985-86 lake freight quoted in Skillings: 8.37
Occupation Tax Allowance: 8.09

TACONITE PRODUCTION TAX

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

The taconite production tax rate for concentrates produced in 1986 was $1.90 per taxable ton. (Taxable tons are the average tonnage produced during the current and previous two production years).

The taconite production tax rate for concentrates produced in 1987 will be $1.90 per taxable ton.

For 1988 and subsequent years, the $1.90 tax rate will be escalated by the percentage increase in the implicit price deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The rate will not be increased for the 1988 production year provided that at least 34,000,000 tons are produced in 1988.

LEGISLATIVE CHANGES

The 1986 legislature made the following changes in aid distribution for the 1986 and 1987 production year to be distributed in 1987 and 1988, respectively:

		Effective Distribution Year
School District: 6 cents	Reduced to 5.5 cents	1988
School Fund : 23 cents	Reduced to 22 cents	1988
County General: 15.5 cents	Reduced to 13 cents	1987
County Road & Bridge: 4 cents	Reduced to 3.5 cents	1987
Taconite Property Tax Relief: 17.75 cents	Increased to 22 cents	1987

The 1987 legislature made changes which include the following:

1. Basic flux additives may be subtracted from the weight of the "fluxed pellets" for production tax purposes. According to M.S. 298.24, Subdivision 1, Clause (e), "'fluxed pellets' are pellets produced in a process in which limestone, dolomite, olivine, or other basic flux additives are combined with merchantable iron ore concentrate."

2. The cents-per-ton distribution for the county fund and the county road and bridge fund was frozen at the escalated distribution rate used for the 1986 production tax.

3. Any production tax money that is collected late due to a pending bankruptcy proceeding (M.S. 298.28, Subd. 15) shall be distributed as follows:

   A. 50% to St. Louis county acting as the counties' fiscal agent, to be distributed as property tax relief as stated in M.S. 273.134 to 273.136.

   B. 25% to the northeast Minnesota economic protection trust fund.

   C. 25% to the taconite environmental protection fund.

DISTRIBUTION OF THE TACONITE PRODUCTION TAX

The taconite mining companies make the production tax payments directly to the six counties affected (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the I.R.R.R.B. The county auditor of each county is responsible for taconite aid payments to the taxing jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account and issues taconite property tax relief checks to the other five counties. The Department of Revenue makes 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 are remitted by the counties to the I.R.R.R.B.

The proceeds of the 1986 taconite production tax (payable 1987) 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:		2.3
3. School Districts —		
a. Taconite schools (mining and/or concentrating in the district):	6.0	
b. School districts that qualify for taconite 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: (includes Electric Power Plant)	13.0*	
b. Taconite Counties Road/Bridge:	3.5*	
Counties Total:		16.5*
5. Taconite Property Tax Relief:		22.0*
6. I.R.R.R.B.:		3.0**
7. Range Assn. of Municipalities and Schools:		0.2
8. 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 1986 production year, the county was 20.5-cents and road and bridge was 5.5-cents with escalation. The actual amount received by the county (27.8-cents), road and bridge (7.2-cents), and other funds per taxable ton was greater due to M.S. 2 298.225 aid guarantees.

** This base year amount was increased in 1981 and subsequent years (base year 1977). For the 1986 production year, the IRRRB was 4.7-cents with escalation.

DESCRIPTION OF FUNDS

1. Taconite Cities and Towns

Forty percent of this fund goes to those cities and townships in which mining activity occurs. The remaining 60 percent goes to those cities and townships in which the concentrating of the taconite occurs. (Note: This is done on a company-by-company basis). 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. This amount is then reduced according to the percentage aid guarantee provisions of M.S. 298.225. For example, if production levels mandate a 70 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 70 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, and fiscal need factors. The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under part (5)a on the following page. 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. This amount may be reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and EARC values.

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 no. 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 13.0-cents-per-ton (for that company) 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 no. 1 - Taconite Cities and Towns, to be deposited in the county road and bridge fund.

5a. Taconite Property Tax Relief

A total of 22 cents per ton escalated by the steel mill products index is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

The Taconite Homestead Credit reduces the tax paid by owners of certain properties located on the Iron Range. The properties that receive this credit are owner-occupied homes and owner-occupied farms.

The tax on all of the land comprising the farm is used in determining the amount of credit for a farm. Prior to 1983, the credit on farms was limited to 240 acres.

If an owner-occupied home or farm is located in a city or town that 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, processing plant or electric generating facility, the taconite credit is 66 percent of the tax on that property. For taxes payable in 1987, the maximum credit is $520. Under current law, the credit increases $15 per year, which will make a maximum credit of $535 for taxes payable in 1988. 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 $465 for taxes payable in 1987. For taxes payable in 1988, the maximum credit for this property is $480.

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 $700 for taxes payable in 1987.

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. (For more information, please contact the local assessor.)

The statutory references governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136, and M.S. 298.28, Subd. 6. This 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) .5625-cents of the 22-cents-per-ton in the Taconite Property Tax Relief account shall be distributed to the school district in which the power plant is located and .1875-cents-per-ton shall be distributed to the county containing that power plant. These cents-per-ton are escalated by the steel mill products index. (Only Erie Mining Company and Cook County are affected).

In addition to the preceding distributions, 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.

   <u>Amount:</u> $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.

   <u>Amount:</u> $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.

<u>M.S. 298.225</u> - The recipients of the taconite production tax as provided in M.S. 298.28, Subdivision 1, Clauses (2) to (5), (6)(b), (6)(c), (7) and (8), are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount distributed from the fund 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 this variable guarantee are listed as follows:

1. 2.5-cent City and Town Fund
2. 12.5-cent Taconite Municipal Aid
3. 3-cents Escalated to I.R.R.R.B.
4. .2-cents R.A.M.S.
5. .1875-cent power plant transfer from Taconite Property Tax Relief Account to Cook county.

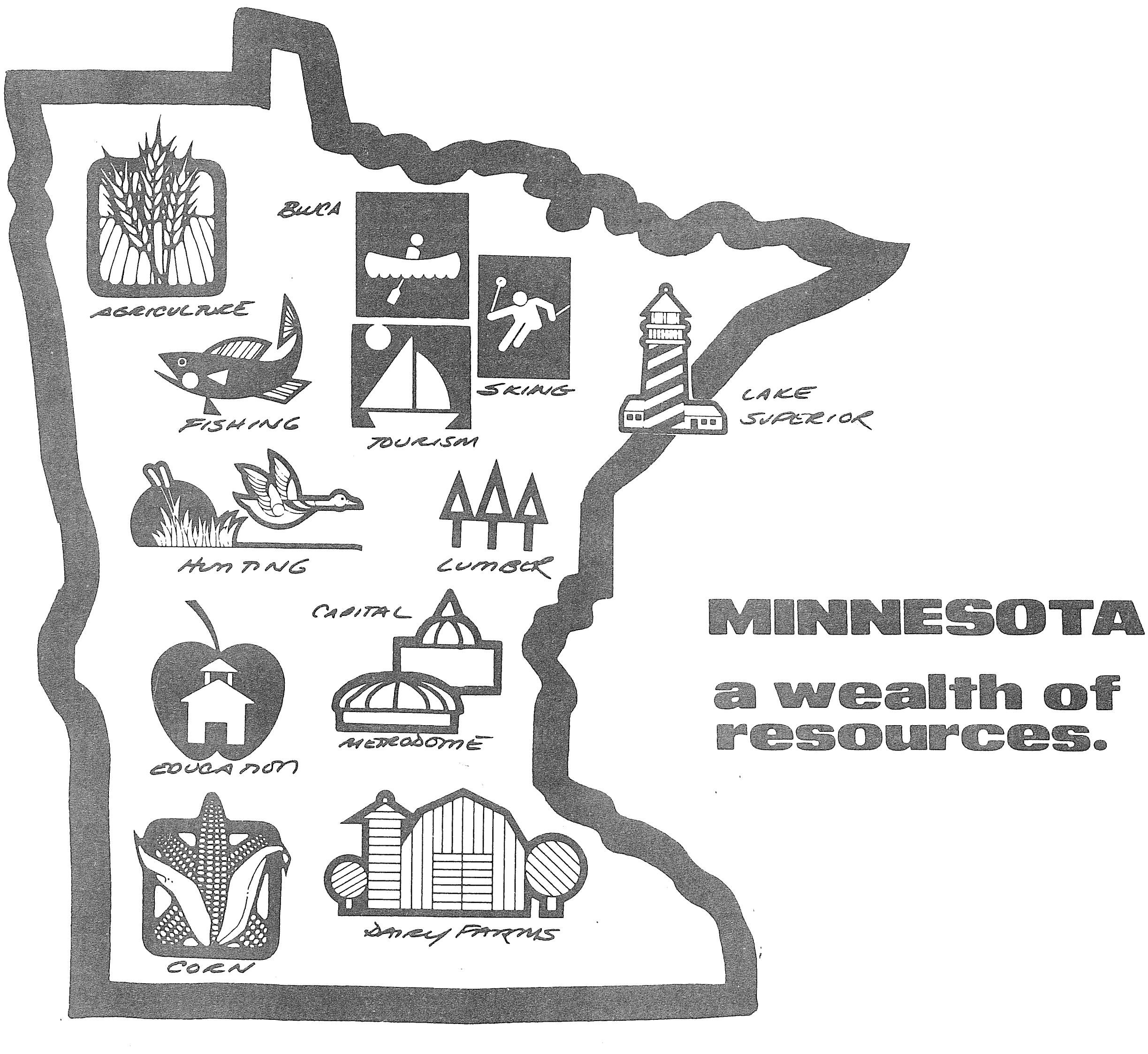
The following funds are guaranteed at 75 percent or the variable guarantee above, whichever is less:

1. 15.5-cent Taconite County Fund
2. 4-cent Taconite County Road and Bridge Fund

The following funds are guaranteed at 50 percent or the variable guarantee above, whichever is less:

1. 23-cent School Fund
2. 6-cent School District Fund
3. Taconite Referendum Fund
4. .5625-cent power plant transfer from Taconite Property Tax Relief Account to S.D. 166

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



PRODUCTION TAX "GRANDFATHER" AMOUNTS 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. The amounts actually distributed are reduced consistent with the aid guarantee provisions of M.S. 298.225.

City/Township	Municipal Aid
Aurora	$ 3,047
Babbitt	60,872
Eveleth	3,526
Gilbert	1,606
Hibbing	25,747
Hoyt Lakes	92,896
Keewatin	8,326
Mt. Iron	145,670
Nashwauk	8,079
Silver Bay	57,979
Virginia	2,841
Great Scott Twp.	11,910
Greenway Twp.	7,511
Lone Pine Twp.	2,820
McDavitt Twp.	8,048
Nashwauk Twp.	8,370
White Twp.	29,481
	$478,729

School District	School Aid
316-Coleraine	$ 63,088
319-Nashwauk-Keewatin	7,124
381-Lake Superior	115,957
691-Aurora-Hoyt Lakes	198,878
692-Babbitt	121,743
693-Biwabik	51,971
697-Eveleth	13,475
701-Hibbing	51,493
706-Virginia	2,470
710-St. Louis County	16,096
712-Mt. Iron-Buhl	315,160
	$957,455

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 and 11 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1987 are listed as follows: (NOTE: The $10,971,476 is split between the local municipalities, counties and schools based upon the current mill rates).

Total Listed By County Area:

St. Louis County	$ 6,612,930
Itasca County	$ 2,329,680
Lake County	$ 715,782
Crow Wing County	$ 582,442
Aitkin County	$ 468,806
Cook County	$ 258,632
Koochiching County	$ 3,204
TOTAL PAYABLE IN 1987:	$ 10,971,476

Total Listed By School District Area:

001-Aitkin	$ 487,967
166-Cook County	$ 258,632
182-Crosby/Ironton	$ 563,281
316-Coleraine	$ 546,792
318-Grand Rapids	$ 1,493,426
319-Nashwauk/Keewatin	$ 289,462
381-Lake Superior	$ 843,091
691-Aurora/Hoyt Lakes	$ 394,727
692-Babbitt	$ 192,169
693-Biwabik	$ 177,089
695-Chisholm	$ 607,106
696-Ely	$ 450,588
697-Eveleth	$ 570,893
699-Gilbert	$ 234,535
701-Hibbing	$ 1,551,558
706-Virginia	$ 993,173
708-Tower/Soudan	$ 225,100
710-St. Louis Cty.	$ 765,386
712-Mt. Iron/Buhl	$ 326,501
TOTAL PAYABLE IN 1987:	$10,971,476

TABLE 5

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

1987 DISTRIBUTION (1986 PRODUCTION YEAR) BASED ON 31,468,117 TAXABLE TONS

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.2
Taconite Municipal Aid	15.7
School Districts	43.4 *
County	26.9
County Road and Bridge	7.0
Taconite Property Tax Relief	29.0
I.R.R.R.B.	9.2
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	10.0
Taconite Environmental Protection Fund	10.6
N.E. Minnesota Economic Protection Fund	(1.5)
School Bond Credits & Payment	3.0
Filtration Plant Credit	.8
1986 Court Case Credits	11.5
Bankruptcy Adjustments	20.9 **
	190.0

* 36.3 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.

** Various adjustments to the distributions were made because of the Chapter 11 bankruptcies of LTV Steel Company and Reserve Mining Company. $1,470,611 wasn't collected from LTV Steel Company due to the prorating of their tonnage, while $4,313,565 was not collected from Reserve Mining Company since all tonnage was considered pre-petitioned.

TABLE 6

SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1981	1982	1983	1984	1985	1986
City & Township	$ 1,382,071	$ 1,361,734	$ 1,362,133	$ 1,192,100	$ 1,157,812	$ 1,005,214
Taconite Municipal Aid	6,776,025	6,701,700	6,701,700	5,855,757	5,696,443	4,949,028
School District - Regular	3,383,849	3,336,407	3,336,709	2,920,098	2,836,169	2,019,239
School District Fund	12,670,617 [a]	12,531,638 [a]	12,531,638	10,967,343	10,651,894	7,610,880
Taconite Referendum Fund	4,198,133	3,866,675	3,867,247	3,958,435	4,000,678	4,021,355
County	11,891,939	11,756,167	11,814,390	10,437,393	10,194,573	8,474,378
County Road & Bridge	3,056,888	3,028,085	3,043,061	2,688,626	2,626,006	2,197,104
Taconite Prop. Tax Relief	19,317,006 [a]	15,684,072 [a]	13,261,767	8,884,109	9,398,881	9,122,405
State	550,897	544,853	544,853	343,974	-0-	-0-
I.R.R.R.B. ($.03 Indexed)	2,265,289	2,150,722	2,161,750	1,958,162	1,903,782	1,650,487
Range Association of Municipalities & Schools	110,181	108,972	108,972	95,003	92,271	80,115
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	-0-	240,000	240,000	240,000	240,000	240,000
Taconite Environmental Protection Fund	19,736,911	11,785,651	6,029,799	8,719,590	9,201,969	3,334,820
N.E. Minnesota Economic Protection Fund	9,265,064	2,793,123	(2,076,400)	1,840,246	2,677,890	(460,662)
TOTAL:	$99,018,289	$80,303,218	$67,341,038 [b]	$64,514,255 [c]	$65,091,787 [d]	$48,657,782 [e]

* The production tax is collected and distributed in the year following production, e.g., the 1986 production tax was collected and distributed during 1987.

a Actual distribution payments differ due to overpayments made from the School District Fund in previous years.

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.

d Total after the school bond, filtration plant and Erie II court case credits have been taken.

e Total after the school bond, filtration plant and Erie II court case credits have been taken, along with bankruptcy adjustments.

TABLE 7
TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1987
(Based upon 1986 Production Year Tax Revenues)
(Not including Taconite Property Tax Relief Dollars)

Cities & Townships	Mining & Concentrating	Taconite Railroad [a]	Taconite Municipal Aid	Total
Aurora	$ -0-	$ ---	$ 124,839	$ 124,839
Babbitt	81,004	166,767	155,500	403,271
Biwabik	---	---	70,144	70,144
Bovey	---	---	48,596	48,596
Buhl	---	---	70,496	70,496
Calumet	---	---	26,241	26,241
Chisholm	---	---	306,650	306,650
Coleraine	---	---	63,330	63,330
Crosby	---	---	99,878	99,878
Ely	---	---	222,934	222,934
Eveleth	37,339	---	253,516	290,855
Franklin	3,529	---	858	4,387
Gilbert	---	---	134,854	134,854
Hibbing	220,172	---	1,019,011	1,239,183
Hoyt Lakes	120,150	152,153	217,083	489,386
Ironton	---	---	26,621	26,621
Keewatin	27,593	---	84,856	112,449
Kinney	4,339	---	28,905 [b]	33,244
Leonidas	2,461	---	6,010	8,471
Marble	---	---	46,548	46,548
McKinley	---	---	12,644	12,644
Mountain Iron	247,307	---	299,932	547,239
Nashwauk	10,740	---	89,545	100,285
Riverton	---	---	4,750	4,750
Silver Bay	76,088	152,706	180,293	409,087
Taconite	---	---	20,598	20,598
Trommold	---	---	3,418	3,418
Virginia	16,252	---	611,439	627,691
Balkan Township	---	---	44,964	44,964
Bass Brook Township	---	---	59,427	59,427
Bassett Township	---	11,745	---	11,745
Beaver Bay Township	---	12,565	---	12,565
Biwabik Township	---	---	42,746	42,746
Breitung Township	---	---	35,223	35,223
Crystal Bay Township	---	6,951	---	6,951
Fayal Township	2,187	---	79,096	81,283
Grand Rapids Township	---	---	115,838	115,838
Great Scott Township	7,128	---	26,596	33,724
Greenway Township	13,677	---	50,722	64,399
Irondale Township	---	---	31,016	31,016
Lone Pine Township	4,480	---	2,031	6,511
McDavitt Township	48,962	---	28,860	77,822
Nashwauk Township	11,395	---	36,939	48,334
Rabbit Lake Township	---	---	6,385	6,385
Schroeder Township	---	47,700	11,998	59,698
Silver Creek Township	---	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
White Township	36,800	---	113,885	150,685
Wolford Township	---	---	5,968	5,968
Wuori Township	33,611	---	27,845	61,456
TOTALS:	$1,005,214	$591,142	$4,949,028	$6,545,384

[a] Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions.

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

TABLE 8*

TACONITE PRODUCTION TAX DISTRIBUTION TO COUNTIES - 1987**

County	Regular County 15.5-cents Escalated	County Road & Bridge 4-cents Escalated	Taconite Railroad	Total
Cook	$ 86,781	$ --	$187,190	$ 273,971
Itasca	515,144	134,954	--	650,098
Lake	663,866	171,328	243,034	1,078,228
St. Louis	7,208,587	1,890,822	354,153	9,453,562
TOTAL:	$8,474,378	$2,197,104	$784,377	$11,455,859

TABLE 9*

TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS - 1987**

School Districts	$.06	$.23	Taconite Railroad	Taconite Referendum	Total
1 - Aitkin	$ --	$ 417,703	$ --	$ 136,960	$ 554,663
166 - Cook County	33,793 [1]	51,257	427,383	48,746	561,179
182 - Crosby - Ironton	--	307,506	--	165,092	472,598
316 - Coleraine	51,975	581,096	--	265,936	899,007
318 - Grand Rapids	--	1,166,690	--	442,581	1,609,271
319 - Nashwauk - Keewatin[2,3]	139,768	196,423	--	127,986	464,177
381 - Lake Superior	126,746	548,736	552,774	364,812	1,593,068
691 - Aurora - Hoyt Lakes	200,142	498,637	345,802	240,963	1,285,544
692 - Babbitt	134,934	267,213	459,421	144,071	1,005,639
693 - Biwabik	61,301	127,545	--	64,620	253,466
695 - Chisholm	--	371,178	--	181,290	552,468
696 - Ely	--	179,085	--	137,401	316,486
697 - Eveleth	88,829	343,598	--	195,405	627,832
699 - Gilbert	--	152,937	--	94,856	247,793
701 - Hibbing	465,848	742,269	--	536,744	1,744,861
706 - Virginia	126,373	421,662	--	287,044	835,079
708 - Tower - Soudan	--	163,636	--	39,529	203,165
710 - St. Louis County[4]	103,583	617,025	--	361,600	1,082,208
712 - Mt. Iron-Buhl[5]	485,947	456,684	--	185,719	1,128,350
	$2,019,239	$7,610,880	$1,785,380	$4,021,355	$15,436,854

* - Does not include dollars from Taconite Property Tax Relief.

** - Distribution in calendar year 1987 is based on 1986 production year.

1 - Erie Power Plant distribution.

2 - Butler Taconite received school bond credit of $39,051 for school bond payment.

3 - National Steel received school bond credit of $94,686 for school bond payment.

4 - S.D. 710 received school bond payment of $240,000 from Commissioner of Revenue.

5 - U. S. Steel received school bond credit of $565,685 for school bond payment.

TABLE 10

TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1986

Firm	Production Tons	Taxable Tonnage[1]	Production Tax Rate	Tax Collected[2]
Butler	-0-	980,809	$1.90	$ 1,661,269
Erie	4,232,962	4,597,192	$1.90	6,495,612
Eveleth	3,455,690	3,443,807	$1.90	6,287,931
Hibbing	4,881,987	5,338,776	$1.90	9,830,506
Inland	1,807,451	1,887,185	$1.90	3,435,531
National	4,021,372	4,344,839	$1.90	7,731,090
Reserve	1,433,898	2,794,192	$1.90	-0-
USX	5,617,695	8,081,217	$1.90	13,215,843
TOTAL:	25,451,055	31,468,117	$1.90	$48,657,782

ESTIMATED FOR PRODUCTION YEAR 1987

Firm	Production Tons	Taxable Tonnage[3]	Production Tax Rate[4]	Tax Collected[5]
Butler	-0-	317,492	$1.90	$ 416,347
Erie	6,000,000	5,031,820	1.90	9,560,458
Eveleth	3,500,000	3,299,768	1.90	6,037,366
Hibbing	7,500,000	5,813,759	1.90	10,761,322
Inland	2,000,000	1,876,464	1.90	3,428,750
National	4,000,000	4,150,011	1.90	7,401,087
Reserve	-0-	356,805	1.90	-0-
USX	7,000,000	7,510,509	1.90	12,313,810
TOTAL:	30,000,000	28,356,628	$1.90	$49,919,140

1 The 1986 taxable tonnage was the average production for 1984, 1985 and 1986.

2 Production tax revenue after school bond credits, the 1984 court settlement credits, bankruptcy adjustments, and water filtration plant credits.

3 The 1987 taxable tonnage is the average production of the 1985, 1986 and 1987 production years.

4 The tax rate for the 1987 production year was frozen at $1.90 per taxable ton.

5 Production tax revenue after school bond credits, the 1984 court settlement credits, and bankruptcy adjustments.

TABLE 11
TACONITE PRODUCED (THOUSANDS OF TONS) AND PRODUCTION TAX COLLECTIONS (THOUSANDS OF DOLLARS) 1955 - 1987

Year	Production Tons	Production[a] Tax Collection	Collection Rate Production Ton	Taxable[b] Tons	Tax Rate[c] Taxable Ton
1955	1,341	$ 78	$ .058		
1956	5,069	297	.059		
1957	6,812	397	.058		
1958	8,574	500	.058		
1959	8,414	528	.063		
1960	13,390	735	.055		
1961	13,187	766	.058		
1962	14,526	842	.058		
1963	16,701	972	.058		
1964	18,505	1,075	.058		
1965	19,004	1,104	.058		
1966	21,677	1,257	.058		
1967	24,311	1,427	.059		
1968	30,269	1,782	.059		
1969	33,410	3,778	.113		
1970	35,348	4,253	.120		
1971	33,778	5,539	.164		
1972	34,544	7,002	.203		
1973	41,829	10,159	.243		
1974	41,053	11,952	.291		
1975	40,809	30,347	.744		
1976	40,575	30,857	.760		
1977	26,372	48,891	1.854	37,759	$ 1.295
1978	49,545	69,394	1.401	49,614	1.399
1979	55,333	88,485	1.599	55,373	1.598
1980	43,060	87,179	2.025	50,296	1.733
1981	49,369	99,018	2.006	51,799	1.916
1982	23,445	80,305	3.425	38,624	2.078
1983	25,173	67,341	2.675	33,302	2.047
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987 (est)	30,000	49,919	1.664	28,357	1.900

[a] Production tax collections are after all credits have been taken. (See footnote (3) on previous page).

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

[c] Average statutory tax rate.

TABLE 12

SUMMARY OF THE 1986 PRODUCTION TAX

Firm	Taxable Tonnage	Tax Rate	Total Tax Before Credits	Erie II Court Case Credits	School Bond Credits	Filtration Plant Credits	Bankruptcy Adjustments	Net Tax Collected
Butler	980,809	$1.90	$ 1,863,537	$ 163,217	$ 39,051	$ -0-	$ -0-	$ 1,661,269
Erie	4,597,192	1.90	8,734,665	768,442	-0-	-0-	1,470,611	6,495,612
Eveleth	3,443,807	1.90	6,543,233	255,302	-0-	-0-	-0-	6,287,931
Hibbing	5,338,776	1.90	10,143,674	313,168	-0-	-0-	-0-	9,830,506
Inland	1,887,185	1.90	3,585,651	150,120	-0-	-0-	-0-	3,435,531
National	4,344,939	1.90	8,255,384	429,608	94,686	-0-	-0-	7,731,090
Reserve	2,794,192	1.90	5,308,965	745,400	-0-	250,000	4,313,565	-0-
U.S. Steel	8,081,217	1.90	15,354,312	1,572,784	565,685	-0-	-0-	13,215,843
TOTALS:	31,468,117	$1.90	$59,789,421	$4,398,041	$699,422	$250,000	$5,784,176	$48,657,782

PRODUCTION TAX CREDITS RESULTING FROM THE ERIE II COURT CASE PRODUCTION YEAR

Firm	1984	1985	1986	1987 (est.)	1988 (est.)	Total (est.)
Butler	$ 250,926	$ 165,856	$ 163,217	$ 148,444	$ 140,491	$ 868,934
Erie	1,319,237	780,864	768,442	698,884 *	661,444 *	4,228,871
Eveleth	324,161	259,429	255,302	232,193	219,754	1,290,839
Hibbing	397,307	318,230	313,168	284,820	269,562	1,583,087
Inland	230,102	152,547	150,120	136,532	129,217	798,518
National	678,702	436,553	429,608	390,722	369,789	2,305,374
Reserve	1,289,869	757,450	745,400	677,930	641,613	4,112,262
U.S. Steel	2,435,547	1,598,209	1,572,784	1,430,420	1,353,792	8,390,752
TOTALS	$6,925,851	$4,469,138	$4,398,041	$3,999,945	$3,785,662	$23,578,637

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 1985 production year credits will be applied to the taxes payable in 1986.

* Used in calculation of bankruptcy adjustments.

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.

In 1987, the Minnesota Legislature repealed the occupation tax in its present form, effective with production after December 31, 1989. The occupation tax will continue to exist, but it will be computed in the same manner as the Minnesota Corporate Franchise (Income) Tax which is computed on a unitary basis and includes an alternative minimum tax. The corporate tax rate was reduced from 12% to 9.5%.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

The determination process historically consisted of two steps. The first was subtracting the non-statutory deductions from the starting point, the Lake Erie Value. The result was the ore value at the mouth of the mine.

Beginning with the 1987 Occupation Tax report, this first step has been partially eliminated. The starting point of the Occupation Tax will now be the Mine Value. Also new for 1987 is two mine values, one for acid (regular) pellets, and another for flux pellets, explained on page 7.

The reason for changing to a mine value is the lack of published lake and rail transportation rates and the disparity between the last published prices and the current actual transportation rates. Flux pellets are fairly new and the published sale prices are higher than acid pellets.

The first step continues to be subtracting certain allowable deductions to arrive at a value at the mouth of the mine. These deductions are the costs of beneficiation and the sales and use tax not capitalized. Transportation, marketing and marine insurance are not allowable deductions from the mine value.

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: The reasonable cost of labor and supplies which must be paid to remove the ore and bring it to the surface.

2. Development Costs: All costs of clearing the land, removing the surface overburden (glacial drift), and removing any waste iron formation, or Virginia Slate, down to the first layer of mineable iron formation or taconite are capitalized as development. Thereafter, any waste or lean iron formation removed is expensed as a current mining cost. If magnetic taconite is mined beneath a previously mined natural ore mine, the waste iron formation above the first layer of mineable taconite shall be considered as development. The deferred development expense is deducted on a pro-rated basis per ton of crude taconite or pellets in the proportion of the current year's production to the total reserve. The computation may be made on either a crude ore or concentrate (pellet) basis, as long as the method is consistent from year to year.

3. Taxes: Natural ore producers are allowed the entire amount of ad valorem taxes levied and paid for the current year on unmined ore. For taconite, recent legislative changes now allow the full amount of all taconite production taxes paid during the current year. Previously, only a portion of the production tax, limited to $.25 per taxable ton, was allowed as a deduction.

4. Royalty Expense: Royalties accrued on tonnages mined or produced during the calendar year are allowed as a deduction. Minimum royalties on non-producing properties which are not part of the reserve estimate for an active mine are not allowed until production occurs on that property. Minimum royalties on leases temporarily inactive but included in the reserve estimate for a producing property, are allowed in the year accrued.

5. Plant and Equipment Depreciation: Assets are classified into three categories for depreciation purposes:

   a) Beneficiation Plant - All crushing and processing facilities and associated equipment. Also included in this category are tailings basins and power plants and substations serving plant facilities.

   b) Standard Plant - All administrative offices, labs, shops and garages are Standard Plant assets. Shovels, drills and assets used either to move ore from the mine to the beneficiation plant or the finished product to railroad cars of a common carrier are included here.

   c) Motorized Equipment - All trucks, autos, trailers, dozers, graders and rubber-tired and crawler-mounted cranes.

   Taconite facilities are allowed a straight-line rate on the grouped assets of four percent per year for the beneficiation and standard plants and ten percent per year for motorized equipment. For natural ore producers, there is a five percent rate for beneficiation and standard plants with a ten percent rate for motorized equipment. Total depreciation is limited to 90 percent of the costs of all depreciable assets on hand at the end of the taxable year.

   The above rates are required for each group of assets and accelerated depreciation methods are not allowed. Rules for capitalization of depreciable assets would follow federal guidelines.

6. Interest on Plant Investment: An allowance for beneficiation plant investment interest is allowed as a deduction. This deduction for interest expense does not have to be actually incurred and generally is limited to four percent of the undepreciated balance on the beneficiation plant investment on January 1 of the current year.

   If actual interest expense incurred for beneficiation plant investment exceeds the four percent allowance, the interest allowed will be the actual amount paid up to, but not exceeding, six percent of the undepreciated balance for beneficiation plant. Except for this allowance, no other interest expense may be deducted.

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

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

The occupation tax rate, initially six percent in 1921, has varied over the years. The rate was 15 percent for all ores mined or produced before January 1, 1986. Legislative changes reduced 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.

Beginning with 1985, both taconite and natural ore producers benefit from the labor credit which reduce the net effective occupation tax rate from 15 percent to a minimum of 6.75 percent. This rate decreased to a minimum of 6.25 percent in 1986 and 5.75 percent in 1987 and subsequent years. This net effective 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 the 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.

1986 OCCUPATION TAX PAID OR REFUNDED

TACONITE COMPANY	NET EFFECTIVE RATE	1986 OCCUPATION TAX PAID	1986 REFUNDS
LTV Steel Mining Co.	6.25%	$2,276,488	$ -0-
Eveleth Mines	6.25%	-0-	725,329
Hibbing Taconite	6.25%	3,542,083	-0-
Inland Steel	6.25%	47,175	-0-
National Steel	6.25%	-0-	407,738
USX Corporation	6.25%	367,787	-0-
Reserve	6.25%	-0-	158,455*
TOTALS:		$6,233,533	
Less: Pre-Petition Tax Not Collected LTV Steel Mining Co. (Erie)		(583,557)	
TOTAL TAX COLLECTED:		$5,649,976	$1,291,522

NATURAL ORE COMPANY		
LTV Steel Co.	6.25%	$ 329,709
Rhude & Fryberger	8.38%	13,487
TOTALS:		$ 343,196
Less: Pre-Petition Tax Not Collected LTV Steel Company		(152,919)
TOTAL TAX COLLECTED:		$ 190,277

* Not refunded due to Chapter 11 Bankruptcy filed August 7, 1986

TABLE 13

IRON ORE AND TACONITE PRODUCED IN MINNESOTA (THOUSANDS OF TONS) AND OCCUPATION TAX COLLECTIONS (THOUSANDS OF DOLLARS) 1955 - 1987*

	Iron Ore		Taconite		Totals	
Year	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax
1955	66,545	31,501	1,341	0	67,886	31,501
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	1,465	394	33,265	9,907 **	34,730	10,301
1986	1,122	343	25,451	6,233	26,573	6,576
1987 est	800	350	30,000	6,000	28,300	6,350

* 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

Year	Tons Produced (000 Tons)	Lake Erie Value	(1) Cost of Benefi- ciation	(2) Transpor- tation	Develop- ment	(3) Cost of Mining	Depreciation: Std. Plant & Motor Equip.	Admin. Expense	Misc.	Royalty	Taxable Value of Production	Occupation Tax Due
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
1985	33,265	47.102 *	19.533	13.012	1.568	3.660	.859	3.425	.974	1.654	2.417	.297
1986	24,017 **	47.143	18.747	13.188	.902	3.754	.884	3.215	1.264	1.498	3.691	.259

(1) Cost of Beneficiation includes labor, supplies, depreciation and interest, miscellaneous (Line 3), sales and use tax expense (Line 7), marketing and marine insurance (Line 6).
(2) Transportation includes the rail and lake transportation allowance in accordance with the occupation tax directives for each year (Line 5).
(3) Cost of Mining includes mining labor and supplies (Line 9A & 9B) plus the 25-cent per ton production tax deduction allowance for each year (Line 13).
* Lake Erie Value reduced from .869 per iron unit to .725 per iron unit.
** The 1986 production and costs per ton DO NOT include Reserve Mining, which filed Chapter 11 Bankruptcy and ceased production on August 8, 1986.

TABLE 15

OCCUPATION TAX REPORT PER TON COSTS
BENEFICIATION AND MINING -- TACONITE ONLY
(000's Tons and Dollars)

	Tons Produced	Beneficiation Labor	Per Ton	Beneficiation Supplies	Per Ton	Beneficiation Depreciation & Interest	Per Ton	Benef./ Misc. Per Ton	Total Benef. Per Ton
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
1985	33,265	$106,804	$3.210	$372,156	$11.188	$156,363	$4.700	$ .189	$19.287
1986	24,017	$ 64,990	$2.706	$259,928	$10.823	$116,637	$4.857	$ .088	$18.474
Occ. Tax Report		Line 3A		Line 3B		Lines 3C & 3D		Line 3E	

	Tons Produced	Mining Labor	Per Ton	Mining Supplies	Per Ton	Cost of Mining	Mining Depreciation Per Ton	Total Mining Costs Per Ton
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	$3.490	.737	$4.227
1985	33,265	$ 57,540	$1.730	$ 54,739	$1.646	$3.376	.859	$4.235
1986	24,017	$ 39,162	$1.631	$ 43,290	$1.802	$3.433	.884	$4.317
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. Reserve Mining production and costs have been eliminated to prevent distortion of costs due to Reserve's shutdown on August 7, 1986.

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.

However, the tax limitations would continue as long as Minnesota Statute 298.40 remains law, even though the constitutional guarantee will expire in 1989. As shown in the example below, the limitation does not apply to the taconite production tax, which is in lieu of ad valorem tax.

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.

The way this provision applies is as follows:

A	B	C
Laws of 1963	Current Year Laws	Current Year Laws
1) Occupation Tax 2) Royalty Tax	3) Corporate Income Tax or Alternative Minimum Tax on Taconite Facilities 4) Sales Tax Paid 5) Sales Tax Liner Exemption	6) Occupation Tax 7) Royalty Tax 8) Sales Tax
Total	Total	Total

All three computations are prepared and (a) and (b) are compared. The higher of these becomes the tax limitation. If the taxes paid or due in (c) are less than the limitation, all taxes in (c) must be paid. If the taxes in (c) are greater than the limitation, the difference is either not collected or, if previously paid, the difference must be refunded.

The 1985 legislature authorized refunds of overpayments beginning with the taxes payable in 1985. Refunds were statutorily prohibited in prior years, thus overpayments (credits) continue to be returned by not collecting current occupation tax, sales and use tax, or railroad gross earnings tax due.

Any remaining balances will be refunded one-half on July 1, 1988, and one-half on July 1, 1989, per M.S. 121.904.

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. 1987, (June 30, 1987), approximately $17.7 million in taxes were not collected because they exceeded the M.S. 298.40 limitation. As of June 30, 1987, credits owed to the mining industry in the accounts payable exceeded $20.4 million. An additional $52.8 million in taxes has not been collected since 1981 to "repay" credits owed to the taconite industry. The M.S. 298.40 credit summary (Table 16) provides more details on credits and the taxes applied to "offset" such credits.

1987 ALTERNATIVE MINIMUM TAX

The 1987 Legislature passed a new income tax law which reduces the rate for businesses from 12% to 9.5% and imposes an alternative minimum tax on those companies who would otherwise not have a tax liability. The new alternative minimum tax for 1987, 1988 and 1989 (M.S. 290.092) is .1% of the property, payroll and sales in Minnesota.

In accordance with this new law, the alternative minimum must be incorporated into the M.S. 298.40 limitation calculation worksheet in the hypothetical corporation income tax computation.

1. PROPERTY FACTOR

The types of property which are to be included in the property factor include: 1) all land, buildings,machinery and equipment, and 2) all inventories, production in process and all other real or tangible personal property actually used by the taxpayer during the taxable year.

INVENTORY

The inventory portion of the property factor includes all purchases of material used or consumed in the normal course of business. A list of some items (not all inclusive) includes rods, balls, bentonite, limestone, all repair parts, coal, diesel fuel, natural gas, taconite pellets.

CAPITAL ASSETS

All capital assets shall be at cost adjusted for additions and retirements.

2. PAYROLL FACTOR

The payroll factor shall include ONLY the amounts of compensation paid DIRECTLY to employees.

3. SALES FACTOR

The sales factor is the sales made within Minnesota or destined to be received by a purchaser in Minnesota.

4. CREDITS

The following credits against the AMT are allowed:
1. Enterprise Zone Credits
2. Research and Development Credit
3. Credit for estimated taxes paid.

The enterprise zone income tax credit must be applied for by the qualifying municipality. The municipality must also specify the types of tax reductions it seeks and the percentage rates or other limitations. See M.S. 469.171 for additional information.

The research and development credit consists of:
1. Five percent of the first $2 million by which the current year Minnesota Research and Development exceeds the base year Minnesota Research and Development, and
2. Two and one-half percent of the excess over the $2 million.

TABLE 16 -- M.S. 298.40 CREDIT SUMMARY

OCCUPATION TAX

	Tax Due Without M.S. 298.40 Limitation	Tax in Excess of M.S. 298.40 Limitation (Not Collected)[1]	Net Occupation Tax Due	Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[2]	Actual Tax Collected	M.S. 298.40 Credit Due
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	11,080,464	(1,173,776)	9,906,688	(5,836,545)	4,070,143	(2,217,174) *
1986	6,233,533	-0-	6,233,533	(367,787)	5,865,746 **	(1,291,552)
1987 est.	6,000,000	-0-	6,000,000	-0-	6,000,000	(1,000,000)

SALES AND USE TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[3]	Actual Tax Collected
1982	7,246,363	(750,261)	5,496,102
1983	5,765,048	(2,613,605)	3,151,443
1984	7,110,166	(4,283,181)	2,826,985
1985	6,476,570	(4,216,360)	2,260,210
1986	4,890,472	(2,399,142)	2,491,330
1987 est.	6,000,000	(1,000,000)	5,000,000

RAILROAD GROSS EARNINGS TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[4]	Actual Tax Collected
1983	926,207	(640,512)	285,695
1984	1,678,295	(1,678,295)	-0-
1985	1,985,441	(795,979)	1,889,462
1986	1,670,756	(815,194) **	855,562
1987 est.	1,250,000	-0-	1,250,000

* This amount refunded when occupation tax due.

** Pre-petition bankruptcy liability not collected: Railroad Tax Total; Occupation Tax $583,557.

[1] 1980-1986 Occupation Tax exceeding M.S. 298.40 limitation (not collected) $17,760,256

[2] 1981-1986 Occupation Tax applied to M.S. 298.40 credits (not collected) $35,196,683 $52,842,129

[3] 1982-1986 Sales Tax applied to M.S. 298.40 credits (not collected) $14,262,549

[4] 1983-1986 Railroad Tax applied to M.S. 298.40 credits (not collected) $ 3,382,897

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

These twelve 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. 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 revision was made in 1974.

*1987 — Social Security Tax is no longer identified as a separate expense, now included under Miscellaneous.

Effective on January 2, 1986, a new simplified schedule of minimum rates was adopted by the Department. The new schedule was designed to more adequately reflect the current value of uneconomic reserves and is listed as follows:

MINIMUM RATES

<u>Open Pit Uneconomic</u> (Stripping ratio less than five-to-one)	Wash Ore Concentrate: Heavy Media Concentrate: Low Grade & Paint Rock:	3.0-cents/ton 2.0-cents/ton 1.0-cent/ton
<u>Underground Uneconomic</u> (Stripping ratio greater than five-to-one)	Wash Ore Conc. (>60% Fe): Wash Ore Conc. (<60% Fe): Heavy Media Concentrate: Low Grade & Paint Rock:	.6 cents/ton .4-cents/ton .3-cents/ton .2-cents/ton

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 underground wash ore with an iron content of less than 60 percent would be calculated as follows:

Number of Tons x .4-Cents/Ton x 3 = Assessed 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 assessed since 1970 is listed as follows:

YEAR PAYABLE	COUNTY	LOCAL	TOTAL
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
1986	1,289,693	1,746,880	3,036,573
1987	1,131,162	1,494,979	2,626,141

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 3.75 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. The direct rail freight rate for taconite is taken from the Occupation Tax Directive.

Natural ore that is shipped on a taconite railroad uses the direct rail freight rate for natural ore that is also taken from the Occupation Tax Directive. If coal or other commodities are transported, the gross earnings shall be calculated using the same direct rail rate as that which applies to taconite.

Effective January 1, 1990, the taconite railroad gross earnings tax will be eliminated. At that time, taconite railroads will be subject to the same tax provisions as other railroads, including the property tax, which will be payable in 1991. The tax currently applies to LTV Steel Mining Company (formerly Erie Mining Company) and LTV Steel Company only. It is due twice a year in six-month increments:

PERIOD COVERED	DUE
January 1 - June 30	On or before September 1
July 1 - December 1	On or before March 1

They must submit a report with their payment containing such information as the 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	6%
	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.

Calendar Year	Tax	M.S. 298.40 Offset (Tax Not Collected)	Total Tax Collected
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	$1,985,441	$ 795,979	$1,889,462
1986	$1,670,756	$ 815,194*	$ 855,562*
1987 (Est.)	$1,370,000	-0-	$1,370,000

*Not collected. Pre-petition bankruptcy liability.

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.

Currently, all royalty taxes are collected from the lessee. Royalty is defined as any amount in money or value of property received by any person having any right, title or interest in or to any tract of land in this state for permission to explore, mine, take out and remove ore therefrom. Royalties can include rents, bonus payments, option to purchase payments, non-recoverable lease payments, etc.

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

The present tax on royalties received in connection with the exploration and mining of taconite and semi-taconite is 14 percent, which is reduced from the 1986 rate of 14.5 percent. A credit which reduces the 14 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 5.75 percent.

The royalty tax rate on the exploration and mining of iron ore is also reduced to 14 percent. The same labor credits apply to mining iron ore as to mining taconite. This means the net effective rate may be reduced to a minimum of 5.75 percent if the cost of labor meets or exceeds the necessary amount.

State-owned leases are not subject to royalty tax. All royalty tax revenue is deposited in the general fund and is not earmarked for any specific distribution.

The 1987 legislature repealed the royalty tax on all other minerals. The royalty tax on taconite, semi-taconite and iron ore was repealed for royalties paid after December 31, 1989. After that date, mining royalties will be subject to the same withholding provisions as other income.

The royalty tax is not in lieu of personal income tax on royalties. Resident and nonresident recipients (individuals, partnerships, and corporation) 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 — must be reported.

Minnesota Income Tax Filing Requirements

In 1984, the filing requirements for part-year and nonresidents receiving income from Minnesota were legislatively changed. Starting with that year, the Minnesota tax liability of part-year and nonresidents is computed by first calculating the tax as if they were full-year residents and then multiplying the tax by a fraction, the numerator of which is the taxpayer's Minnesota source income and the denominator being the federally adjusted gross income. Rents and royalties are included as Minnesota income.

For more specific income tax 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 55146.

TABLE 17

IRON ORE, TACONITE & OTHER ORE*, ROYALTY TAX

Year	Iron Ore Royalty Tax (000's)	Taconite Royalty Tax (000's)	Other Ore Royalty Tax (000's)	Total Revenue (000's)
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
1985	359	3,650	4	4,013
1986	208	2,436	3	2,647
1987 (est.)	275	2,482	3	2,760

* Other Ore may include Copper-Nickel, Base or Precious Metals, or any other mineral on which royalty 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 tangible personal property; the use tax is imposed on the use, storage or consumption of tangible personal property which was purchased without sales tax having been assessed.

The current rate of tax is six percent, having been increased from five percent on January 1, 1983. All Sales and Use Tax revenue is deposited in the General Fund and is not earmarked for any specific distribution.

The 1987 Minnesota Legislature expanded the Sales and Use Tax to areas not previously covered. Some of the new areas are:

- Services such as cleaning, laundry, lawn care, security
- Non-prescription drugs such as aspirin, antacids, burn remedies, first-aid products, eye preparations
- Custom computer software
- Interstate calls
- Fuels for non-highway use

The industrial production exemption, M.S. 297A.25, subd. 1(h) allows industry to exempt items from Sales and Use Tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item so used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the "chemical" classification.

The accessory tool exemption is also available to all manufacturing-type businesses. The 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 and having a useful life of less than twelve months. Shovel dipper teeth, cat ripper teeth, cat and grader blade cutting edges, 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, subd. 1(o), liners are exempt from the Sales and Use Tax. Examples of some of the items covered under this exemption are chute and bin liners, pump liners, wear plates and rubber lining materials.

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. After August 1, 1985, if additional qualifying criteria is met, a full six percent refund of the sales and use tax can be obtained.

The Minerals Tax office 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 office uses 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.

YEAR	SALES TAX	M.S. 298.40 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	2,590,481	-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	6,476,570	4,216,360	2,260,210
1986	4,890,472	2,399,142	2,491,330
1987 (Est.)	6,000,000	1,000,000	5,000,000

Sales Tax Rate History

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

M.S. 298.26 TAX ON UNMINED TACONITE

A tax not exceeding $10 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 office. 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 that 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 office 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 County.

Lands in Category 2 are 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)*

County	1981	1982	1983	1984	1985	1986
Itasca	30,946	32,690	34,741	34,485	36,123	---------- **
St. Louis	209,118	252,011	296,228	286,904	360,546	310,000 (Est.)
Totals:	240,064	284,701	330,969	321,389	396,669	310,000

* Taxes are payable in the year following the assessment.
** Itasca County made the decision not to collect the Unmined Taconite Tax.
1986 estimate due to the bankruptcies of Reserve Mining Company and LTV Steel Company.

Tax on Severed Mineral Interests

Severed mineral interests are those mineral interests that are owned separately from the title to surface interests in real estate. Severed mineral interests are taxed under Minn. Stat. SS 272.039, 272.04, and 273.165, subd. 1 at 25 cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $2 per tract. No tax is due on mineral interest taxes under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed as follows: 80 percent is returned to local taxing districts where the property is located in the same proportion that the mill rate each local taxing district bears to the total surface mill rate in the area; and 20 percent to the Indian Business Loan Account in the State Treasury for business loans to Indians by the Indian Affairs Council under Minn. Stat. S116J.64 (1986).

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners of these interests to file a document — with the county recorder where the interests were located — describing the mineral interest and asserting an ownership claim to the minerals. The purpose of this requirement was to "identify and clarify the obscure and divided ownership condition of several mineral interests in this state," Minn. Stat. S 93.52. Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state, Minn. Stat. S 93.55. In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirement, and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc., U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The United States Supreme Court refused to hear an appeal requested by one of the plaintiffs. In 1979, shortly after this decision, the Minnesota Legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders were obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete, and giving title to the state.

In a later case, separate from the Contos case cited above, the Minnesota Supreme Court ruled in 1983 that severed mineral interests owned by the Federal Land Bank of St. Paul were exempt from the state severed mineral tax under a federal law exempting Land Bank real estate taxes from local property taxes.

The following table is a summary of revenues from the severed mineral tax from 1980 to 1986:

Year	Total Collections[1] of Affected Counties	Payment to Indian Business Loan Account
1980	$456,514	$ 91,303
1981	469,466	93,893
1982	535,552	107,110
1983	482,009	96,402
1984	438,738	87,748
1985	528,310	105,662
1986	424,474	84,897

[1] In 1986, a survey was taken of all county auditors requesting information on a calendar year basis. A total of 51 of the 87 counties reported collections. One additional county reported making its first collection in 1987.

TAXES ON OTHER MINING AND/OR EXPLORATION

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

The 1987 Legislature approved a significant reform of the state's mining tax laws, particularly those tax laws relating to all other minerals.

All specific taxes on copper-nickel mining, as detailed in the 1986 Guide to Minnesota Mining Taxes, were repealed. The tax laws effective for 1987 and all subsequent years detailed in the remainder of this section apply to copper-nickel as well as all other minerals.

TABLE 19

APPLICABLE TAXES FOR BASE & PRECIOUS METALS

	Pre-1987 Laws	New Laws
Occupation Tax:	Yes	Yes. 9.5%, same as Corporate Income Tax
Corporate Income Tax:	No	No
Ad Valorem Tax (On Value of Ore Reserves)	Yes	No Repealed
Ad Valorem Tax (Smelter & Plant Facilities)	Yes	Yes
Severed Mineral Interest:	Yes	Yes
Royalty Tax:	Yes	No Repealed
Production Tax:	No	No
Sales & Use Tax:	Yes	Yes
Net Proceeds Tax:	No	Yes (2%)

Occupation Tax - Corporate Income Tax

The Minnesota Constitution, Article X, Section 2, mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the Occupation Tax is computed according to the Minnesota Corporate Franchise (Income) Tax, beginning with 1987.

The Corporate Income Tax, as changed by the 1987 Legislature, has been reduced from 12% to 9.5% and an alternative minimum tax of .01% (1/10th of 1%) of the total property, payroll and sales has been added. The effective corporate tax rate for a base or precious metals mine is expected to be about three percent because of the income allocation for out-of-state sales. The three percent rate could vary somewhat depending upon the impact of unitary tax laws. For more information on the Alternative Minimum Tax, refer to the Occupation Tax, M.S. 298.40 where the property, payroll and sales factors are explained in more detail.

Ad Valorem Tax

Possibly the most significant change made in the reform of the state's mining tax laws was the removal of any ad valorem tax on the value of minerals other than taconite or iron ore. The removal of this tax on ore reserves is expected to further encourage the current interest in exploration for base and precious metals. Companies mining any of the above minerals would be subject to the property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and not subject to ad valorem tax. In 1987, the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Mill rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

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 cents 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.

Royalty Tax

The Royalty Tax on other minerals has been repealed. However, concurrent with the elimination of the royalty tax is the requirement that all persons or companies paying royalty begin to withhold Minnesota income tax from their royalty payments and remit the withholding tax and applicable information to the State of Minnesota, Department of Revenue.

Sales & Use Tax

All firms involved in the mining or processing of minerals will be subject to the six percent Sales and Use Tax on all purchases, except those that qualify for the Industrial Production Exemption. This exemption covers items that are used or consumed in the production of personal property to be sold ultimately at retail. Classification of items included in this exemption are chemicals, fuels, petroleum products, lubricants, packing materials, electricity, gas and steam. Significant items qualifying under this exemption are explosives, drill bits, grinding rods and balls, crusher and grinding mill liners. New or expanding businesses may qualify for a refund of all or part of the Sales and Use Tax they paid on purchases of capital equipment. For more information, contact the Minerals Tax office.

Net Proceeds Tax

The Net Proceeds Tax is imposed on the mining of all ores and minerals except for sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, soil, iron ore and taconite. The tax is two percent of the net proceeds from mining such ores. Net proceeds are defined as the gross proceeds from mining less deductions. The net proceeds tax is effective for taxable years beginning after December 31, 1986. The tax is due on June 15 of the year succeeding the calendar year of the report.

If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale. If the minerals are used by the taxpayer or disposed of in a non-arms-length transaction, such as shipments to a wholly owned subsidiary or transactions between affiliated companies, then the gross proceeds are determined as follows:

1. The price of the mineral is determined by reference to the average annual market price of the mineral in the Engineering and Mining Journal. If there is no average annual market price for the mineral, then an arithmetic average of the monthly or weekly prices of the mineral in the Engineering and Mining Journal is used. If the mineral is not listed in the Engineering and Mining Journal, then another recognized published price as determined by the Commissioner of Revenue is used; and

2. The price, as determined above, is multiplied by the amount of the mineral credited or paid for by the smelter. Any special smelter charges are deducted and the resulting amounts are the gross proceeds for calculating the tax.

Allowable Deductions

The deductions from gross proceeds allowed are the amounts actually paid for:

1. Labor, including wages, salaries, fringe benefits, unemployment and workers' compensation insurance.

2. Machinery, equipment and supplies, including sales and use tax, except items subject to depreciation are deductible only as depreciation.

3. Administrative expenses inside Minnesota.

4. Transportation of the minerals if the expense is included in the sale price.

5. Expenses of exploration, research, or development within Minnesota if paid during a production year.

6. Expenses of exploration and development within Minnesota incurred prior to production, but only if amortized and deducted over the first five years of production.

The carryback or carryforward of deductions is not allowed.

Non-Allowable Deductions

Deductions specifically not allowed are:

1. All sales, marketing and interest expense.
2. All insurance expense and taxes, except as specifically allowed.
3. All administrative expense outside Minnesota.
4. Any research expense prior to production.
5. Any reclamation expense incurred after production ends.
6. Royalty expenses, depletion allowances and the cost of mining land.

Distribution

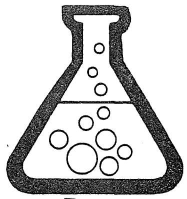
The Net Proceeds Tax on minerals or energy resources extracted within the taconite tax relief area is distributed as follows:

1. Five percent to the city or town where the mineral or energy resource is extracted.
2. Ten percent to the taconite municipal aid account.
3. Ten percent to the school district where the mineral or energy resource is extracted.
4. Twenty percent to school districts where the resource is extracted or within the taconite tax relief area.
5. Twenty percent to the county where the mineral or energy resource is extracted.
6. Twenty percent to be used for property tax relief in counties within the taconite tax relief area. St. Louis County will act as the counties' fiscal agent.
7. Five percent to the I.R.R.R.B.
8. Five percent to the Northeast Minnesota Economic Protection Fund.
9. Five percent to the Taconite Environmental Protection Fund.

The tax distribution within the taconite relief area is made July 15 of each year.

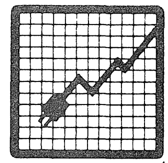
The Net Proceeds Tax on minerals or energy resources extracted outside the taconite tax relief area is deposited in the state general fund.

POTENTIAL MINNESOTA MINERAL RESOURCES AND THEIR USES



COBALT

1) Aircraft
2) Paint
3) Chemicals
4) Machine Tools



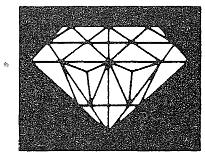
COPPER/NICKEL

Copper

1) Electric Equip.
2) Tubing
3) Auto Radiators
4) Shell Casings

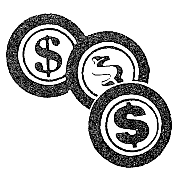
Nickel

1) Stainless Steel



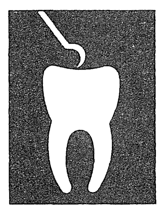
DIAMONDS

1) Jewelry
2) Abrasives
3) Construction & Sawing
4) Mineral Services-Drilling



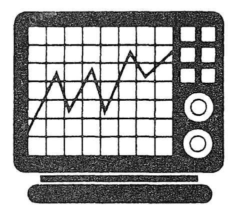
GOLD

1) Jewelry
2) Coins
3) Dental
4) Electronic



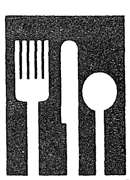
PALLADIUM

1) Electrical & Electronic
2) Dental & Medical
3) Automotive



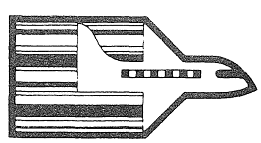
PLATINUM

1) Automotive - Catalytic Converter
2) Electronic
3) Chemical - Petroleum Catalyst
4) Jewelry



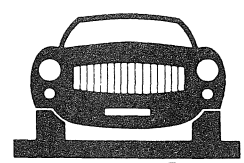
SILVER

1) Photography
2) Electrical & Electronic
3) Silverware
4) Jewelry



TITANIUM

1) Paint
2) Paper
3) Plastics
4) Aero-space



ZINC

1) Galvanizing
2) Brass
3) Die Castings
4) Paint
5) Rubber Products

TABLE 20 — ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

JANUARY	FEBRUARY	MARCH	APRIL
—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.	1 —Royalty Paid Report by companies due. 1 —Royalty Received Report from recipients due. 1 —Taconite Tax Report due from companies. 1 —Taconite Production Tax determinations mailed to companies within one week. 15—Ninety percent payment of the Taconite Production Tax due in county offices. 25—Distribution of the Taconite Production Tax by counties (collected on February 15).	1 —Railroad Gross Earnings Report and payment due 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.	1 —Owner of lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for Unmined Taconite Tax. 15—Final Taconite Production payment due in the county offices.
MAY	**JUNE**	**JULY**	**AUGUST**
1 —Tentative Determination for Occupation Tax mailed by the Division. 15—If a disagreement exists, a formal written protest to the 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.	1 —Final Occupation Tax Determination mailed to companies. 14—Full Occupation Tax payment due. 30—Recertification of Royalty Tax paid mailed to mining companies.	15—Taconite Referendum distribution of Taconite Production Tax made by the counties. 15—Additional Royalty Tax assessed due in Minerals Tax Office.	
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
1 —Railroad Gross Earnings Report and payment due for January to June. 15—Ad Valorem Tax present worth estimated mailed to companies. 15—Taconite Municipal Aid account funds distributed.	10 —Taconite Production Tax estimates due from companies. —Hearing on Ad Valorem mineral taxes held first secular day after October 10.	1 —Ad Valorem Tax final adjustments to property equalization sheets to county assessors.	1 —Mineral Tax Office 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 reports mailed out

MINNESOTA DEPARTMENT OF NATURAL RESOURCES DIVISION OF MINERALS

The Minerals Division of the Department of Natural Resources (DNR) provides for the management of 10 million acres of state-owned trust fund and tax forfeited mineral rights, three million acres of state and county peatlands, and construction materials on the three million acres of additional state surface lands. State mineral ownership includes 18 percent of the Mesabi Iron Range, about half of the six million acres of peatlands, and a large portion of the copper-nickel, titanium and manganese resources. The geology of Minnesota shows significant potential for gold, platinum, other precious metals, copper, zinc, other base metals, industrial minerals such as clay, silica sand, dimension stone, olivine, and construction commodities such as sand and gravel, crushed stone and mine wastes.

The Division's overall goals are to sustain the existing mining industry and encourage mineral development in order to provide an equitable rental and royalty income for the trust funds, local taxing districts, and jobs for Minnesotans in mineral-related industries. The existing industry can be sustained by working to reduce the cost of Minnesota taconite pellets, and implementing new technology on Minnesota's iron ore.

The Division's responsibilities include making land available for exploration and mining through mineral and peat leasing, implementation of the exploratory boring law, conducting environmental studies, identifying state and county mineral ownership, providing environmental review for proposed leases and mining operations, and encouraging mineral development through support of cooperative industrial research, value-added processing and market developments. The Division also conducts field inspection of all exploration and mining activities, surveys and studies to improve the geologic data base, and geodrilling to confirm geophysical data and encourage exploration. A drill core library which is used to better understand the state's geology and to identify mineral occurrences is also maintained by the Division. Other activities include mineland reclamation and associated field studies, permit compliance, chemical testing, and peat and industrial minerals inventories.

Since 1889, the state has been leasing its lands for exploration and mining of iron ore and taconite. Since 1966, the state has been leasing its lands for exploration and mining of copper, nickel, and associated minerals. Ten copper-nickel lease sales have been held resulting in the awarding of 2,127 leases covering 892,751 acres to 54 lessees.

As of September 1, 1987, the following state mineral leases were in effect:

Lease Type	Lessees	Leases	Acres	Counties
Copper-Nickel, Associated Minerals	27	599	243,417	Aitkin, Beltrami, Carlton, Itasca, Koochiching, Lake, Lake of the Woods, Roseau, St. Louis
Iron Ore/Taconite	10	119	9,795	Itasca, St. Louis
Peat	4	5	6,559	Carlton, St. Louis

Six taconite mines shipped ore during 1986 from state leased lands. The total production from state leased lands was 20,306,000 crude ore tons, and the $1,565,655 in royalty payments and the $28,400 in rental payments were distributed to the permanent school fund, the general revenue fund, several acquired land funds and local taxing districts.

There has not yet been production of ore from the state copper, nickel, and associated minerals leases. The $273,100 in rental payments received in 1986 were distributed to the permanent school fund, the university fund, the consolidated conservation area fund, the general revenue fund, several acquired land funds and local taxing districts.

The 1986 legislature set the policy for the state to provide for the diversification of the state's mineral economy through long-term support of mineral exploration, evaluation, development, production, and commercialization.

The legislature also established a Minerals Coordinating Committee to plan for diversified mineral development. Members of the committee include directors of the MDNR Minerals Division (chair), Minnesota Geological Survey, Minerals Resources Research Center, and Natural Resources Research Institute. The Minerals Coordinating Committee is responsible to prepare and adopt a plan for increasing the knowledge of the state's mineral potential, stimulate mineral resource development, and promote basic mineral research.

Minerals diversification is a coordinated effort between the DNR and the University to provide a foundation for expanding into new mineral areas statewide. Minnesota has tremendous potential for mineral development in all areas of the state. Traditionally, iron ore, taconite, and industrial minerals have dominated the mining economy of Minnesota. Recent declines in taconite demand have generated a need to diversify the mineral base and create a new value-added iron economy. The bedrock underlying much of Minnesota holds high potential for the occurrence of deposits of gold, silver, platinum, chrome, copper, nickel, lead, and zinc.

The Hibbing office has considerable information available for inspection and review. Drill core logs, assays, geophysical and geochemical surveys, as well as diamond drill core samples from terminated state leases or those acquired by the Division provide an extensive geological data base for those interested in exploring for minerals in Minnesota. The addresses of the St. Paul and Hibbing offices are included with the address list on the inside back cover.

MINERALS AND MINING
Government Agencies

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

DONALD H. WALSH, Audit Manager, Administration
JOHN B. RIOUX, Revenue Auditor - Occupation Tax
NORMA BRUSACORAM, Revenue Auditor - Occupation Tax/Accounts Payable
BILL O'BRIEN, Revenue Auditor - Sales & Use Tax
MARY JO GRAHEK, Secretary
THOMAS W. SCHMUCKER, Administrative Engineer - Production Tax, Valuations
WILLIAM F. BETZLER, Mining Economic Geologist - Minerals Information System
SANDRA D. GORRILL, Executive I - Royalty Tax, Gross Earnings Tax
ROBERT A. WAGSTROM, Computer Programs, Mining Engineer

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M. LALICH, Director
THYS B. JOHNSON, Director, Center for Applied Research and Technology Development
RODNEY L. BLEIFUSS, Assistant Director, Minerals Division

COUNTY MINE INSPECTORS

D. A. SANDSTROM, St. Louis Co. Mine Inspector, Trunk Hwy. 135 East, Virginia, MN (218) 749-7121
S. P. JELENCICH, Crow Wing Co. Mine Inspector, Star Route 1, Deerwood, MN (218) 546-5868

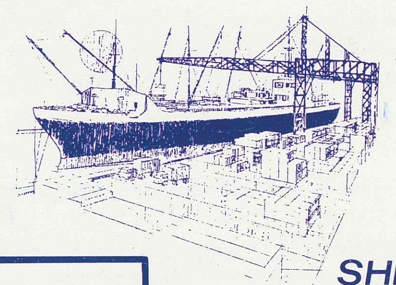
Minnesota

EDUCATION

MEDICAL

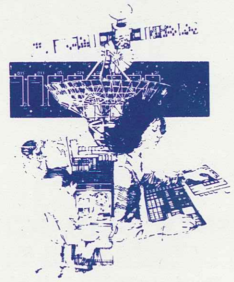
AGRICULTURE

NATURAL RESOURCES



SHIPPING

TECHNOLOGY



MANUFACTURING

MINING

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