Minnesota

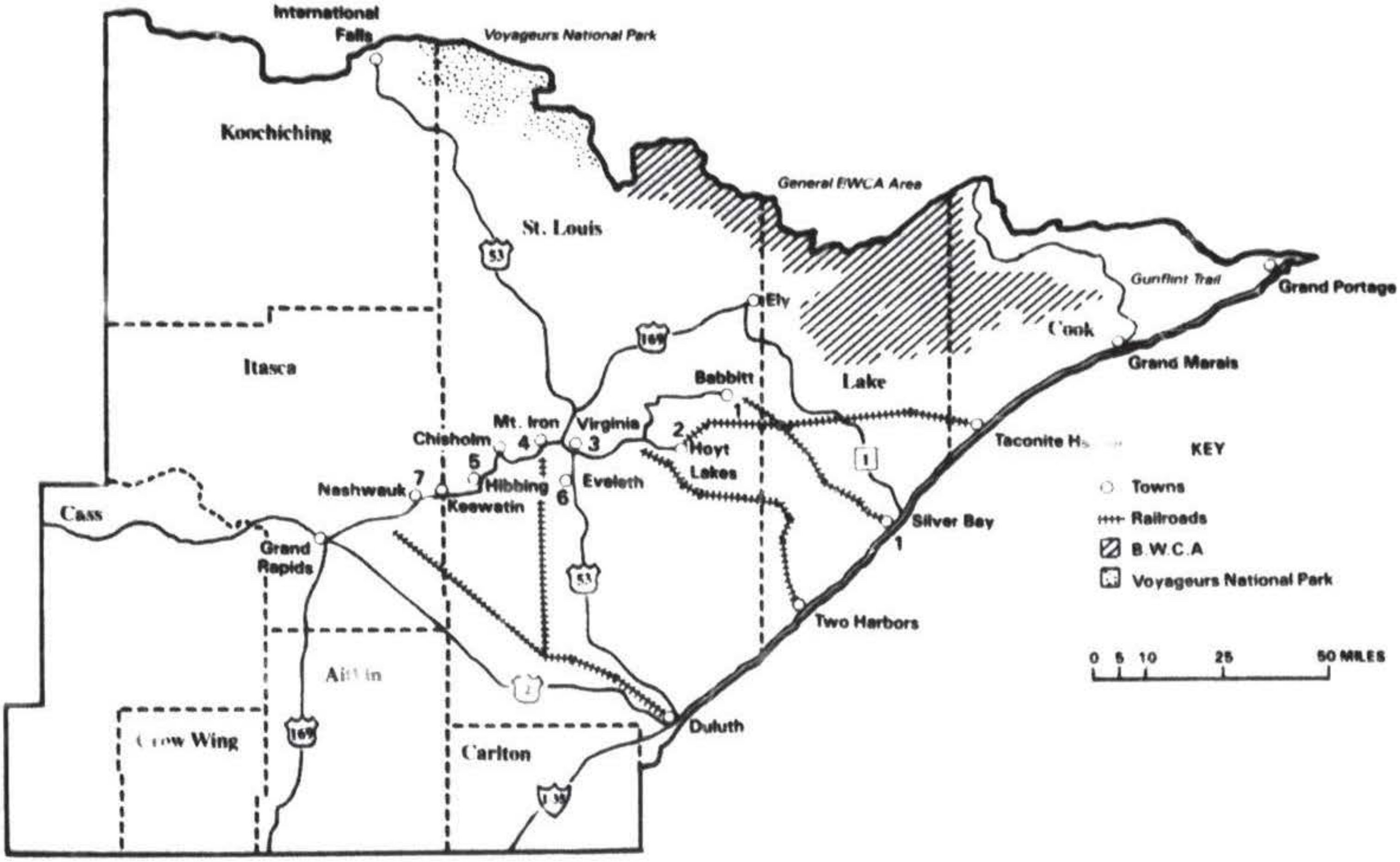
MINING TAX GUIDE

Department of Revenue
Minerals Tax Division

OCTOBER 1989

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity (million tons)
1) CYPRUS NORTHSHORE MINING CORP.[a] Owner: Cyprus Mineral Company (100%)	4.0
2) LTV STEEL MINING COMPANY[b] Pickands Mather Services, Inc., Managing Agent Owner: LTV Steel (100%)	8.0
3) MINORCA PLANT Owner: Inland Steel Mining Co. (100%)	2.5
4) MINNTAC PLANT Owner: USX Corporation (100%)	12.5
5) HIBBING TACONITE COMPANY Pickands Mather Services, Inc., Managing Agent Owners: Bethlehem Steel Co. (70.3%) Pickands Mather & Co. (15%) The Steel Company of Canada, Ltd. (14.7%)	8.1

	Effective Capacity (million tons)
6) EVELETH MINES* Oglebay Norton Co., Managing Agent Owners: Eveleth Taconite Company Rouge Steel Co. (Ford) (85%) (31.7%) Oglebay Norton Co. (15%) (18.4%) Owners: Eveleth Expansion Company Virginia Horn Tac. (Armco) (56%) (35.1%) Ontario Eveleth Co. (Stelco) (23.5%) (14.8%) Oglebay Norton Co. (20.5%) (see above)	5.8
7) NATIONAL STEEL PELLET COMPANY Owner: National Steel Corp. (100%) National Steel Ownership: National Intergroup (50%) Nippon Kokan KK (50%)	4.7
TOTAL EFFECTIVE:	45.6

[a] Cyprus Northshore Mining Corporation was previously Reserve Mining Company

[b] LTV is continuing to operate LTV Steel Mining Company under Chapter 11 of the bankruptcy laws.

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

TABLE OF CONTENTS

The Minerals Tax Division wishes to give thanks to Cleveland-Cliffs, Inc., for the photographs used on the front and back covers of this issue of the Minnesota Mining Tax Guide.

LIST OF TABLES

(Note: All tables dealing strictly with the Taconite Production Tax use tonnages with flux materials subtracted from them. All others use actual tonnages produced).

INTRODUCTION

OUTLOOK

The outlook for the discovery and mining of minerals other than iron ore and taconite is promising. Recent changes in the tax laws and procedures for the leasing of state lands have been helpful.

Recognizing the importance of mineral development, the 1989 legislature established a new Legislative Commission on Minerals to systematically plan for the diversification of the state's mineral economy. This commission was formed to study issues relating to the environmentally sound development of the minerals industry in Minnesota.

Some of the areas this commission will consider are:

1. The establishment of a focused mineral development agency, such as a Department of Mines or Minerals, within state government.

2. The economic competitiveness of Minnesota in attracting mineral development.

3. State agency practices that may impede mineral development.

4. What roles the state and universities can and should play in mineral development.

This commission must prepare and submit a report to the legislature by January 15, 1991.

TAX STUDY

The Minerals Tax Division is participating with several other states, numerous mining, exploration and other companies and Whitney and Whitney in an update to their 1985 "Impact of State Taxation on the Mining Industry: A Study of Fifteen States".

The 1987 Minnesota Legislature adopted many significant reforms to the mining industry in Minnesota. These were highlighted in the 1987 "Minerals Tax Bulletin" published by this office.

It is our expectation that Minnesota will be reflected much more favorably in the 1989 Whitney and Whitney study than they were in the 1985 study. This study should be completed and results sent to the participants in the fall of 1989.

TACONITE

The all-time record for taconite production in Minnesota was established in 1979 with over 55 million tons produced. Total taconite production in Minnesota fell to 23 million tons in 1982 and 25 millions tons in 1983 during the worldwide recession in the steel industry.

During this period, the world price of ore decreased and the Lake Erie selling price of Minnesota ore was increased from $42 per ton in 1979 to $56 per ton in 1983. Minnesota ore became noncompetitive due to the higher selling price resulting from increased production costs.

Through the cooperative efforts of industry, labor, suppliers and the state, significant cost reductions have been achieved in the last five years. Although the industry, its employees and the Iron Range area endured some difficult times, the taconite industry appears to be emerging as an efficient, stable, low-cost producer.

	1979	1983	1987	1988
Lake Erie Value:	$42.21	$56.49	$37.46	
Mine Value:			24.27	$24.32
Beneficiation Costs:	16.64	26.81	15.77	14.90
Mining Costs (incl. tax):	4.31	5.32	4.96	5.08
Production Tons (million):	55,333	25,173	32,109	39,455
Employment (thousands):	14,000	6,500	4,800	5,400

The Lake Erie Value as the starting point for occupation tax was changed to the Mine Value effective May 1, 1987. For 1987, the difference between the two values was the transportation allowance of $13.19.

The variation in costs reflects the high fixed costs in taconite production, resulting in dramatic reductions in the production cost per ton when production increases significantly.

YOUR OPINION

We would like your opinion on what we can do to make the Minnesota Mining Tax Guide an even more useful publication. Please call or write the Minerals Tax Division with any ideas or suggestions. Your support and acceptance of this publication is appreciated.

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[1] 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	33,182	3.4	96.6	4.9
1988	40,198	1.8	98.2	5.5
1989 Est.	39,500	1.9	98.1	6.0

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. Minnesota's share in 1988 exceeded four percent for the first time since 1985. With the opening of Cyprus Northshore Mining Corporation, formerly Reserve Mining Company, Minnesota may regain some of its lost market share.

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

Year	Minnesota[2] Production Tons (000's)	Minn. %U.S.	U.S.[3] Production Tons (000's)	Minn. %World	World[3] 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	769
1983	26,024	69.3	37,562	3.6	728
1984	36,538	71.3	51,269	4.5*	823*
1985	34,730	71.2	48,751	4.1*	845*
1986	26,573	68.5	38,862	3.1*	855*
1987	33,182	77.0	46,817*	3.8*	869*
1988	40,198	68.8	58,400*	4.4*	918*

*Preliminary figures (world figures revised each year for previous five years)

Source of Information - 1) County Mine Inspection Reports
2) Minnesota Production Tax (taconite) and Occupation Tax (natural ore) Reports
3) American Iron Ore Association

TABLE 3

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

Based on the Production for Calendar Year (000's)

TAX	1981	1982	1983	1984	1985	1986	1987	1988	1989 Est.
Ad Valorem-Unmined Natural Ore									
-(Year Assessed)	$ 3,770	$ 3,545	$ 3,700	$ 3,326	$ 3,037	$ 2,626	$ 2,372	$ 1,242	$ 1,300
Occupation-Taconite	12,708	3,348	7,386	29,915	9,907	6,234	5,356	2,993	2,500
-Natural Ore	1,232	719	499	442	394	343	789	294	250
Taconite Production	99,018	80,305	67,341	64,514	65,092	48,658	51,184	57,402	72,000
School Bonds	183	176	824	775	782	699	673	720	860
Railroad Gross Earnings-Taconite	4,961	1,354	926	1,678	1,985	1,671	1,405	1,397	N/A
Royalty-Taconite	5,392	4,093	2,821	4,564	3,576	2,436	1,959	2,540	2,371
-Natural Ore	429	619	445	536	454	208	352	179	323
Unmined Taconite (Year Assessed)	240	285	331	321	397	385	393	365	360
Sales & Use (Taconite Only)	9,799	7,828	5,765	7,110	6,477	4,890	5,287	8,352	7,500
TOTAL: (Taconite Only)	$132,301	$97,389	$ 85,394	$108,879	$88,216	$ 64,973	$66,257	$73,769	$85,591
TONS PRODUCED: (Taconite)	49,369	23,445	25,173	35,689	33,265	25,451	32,109	39,485*	38,800*
TOTAL TAXES PAID									
ON PER TON BASE: (Taconite)	2.68	4.15	3.39	3.05	2.65	2.55	2.06	1.87	2.21

* Tons are without flux additive.

Total taxes per ton reached a peak in 1982. The tax rate per ton was abnormally high that year due to the effects of three-year averaging with only 23.4 million tons produced. During 1984, an agreement was negotiated to settle a series of court cases concerning mining taxes. As a result of this settlement, the legislature enacted various reforms and tax reductions which began to take effect in 1984. This, along with gradually increasing production, had the effect of lowering the tax rate through 1988. Effective rates are expected to increase modestly in 1989 due to higher three-year average production and the effects of an escalator which applies to the production tax.

TAXES LEVIED ON TACONITE
(1975 - 1988)

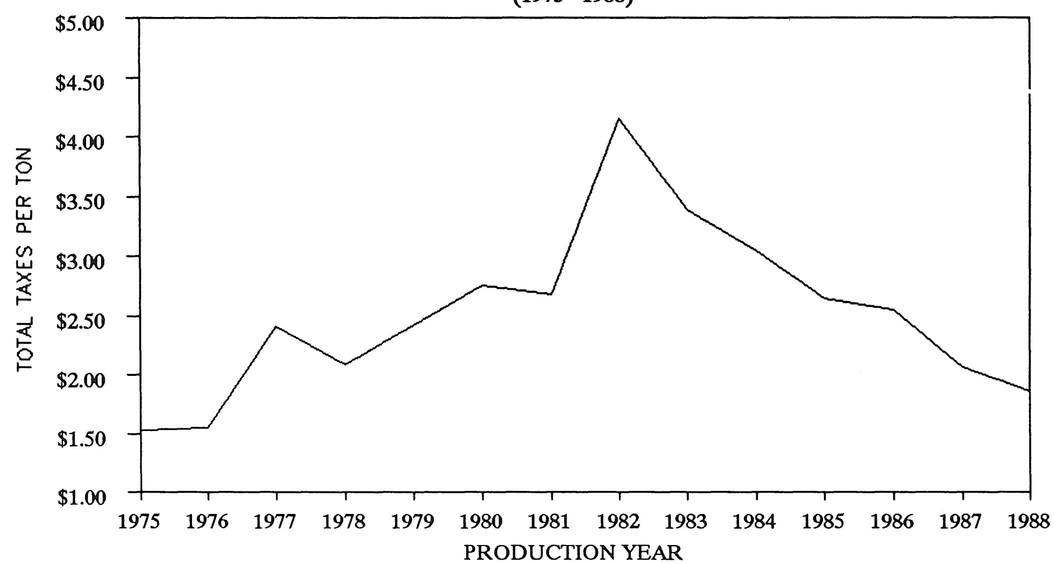


TABLE 4
MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

Production Year	Unmined Taconite Tax	Sales & Use* Tax	Production Tax	Occupation* Tax	Royalty Tax	School Bonds	Railroad Gross Earnings* Tax	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	29,915,354	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	9,906,688	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989 Est.	360,000	7,500,000	72,000,000	2,500,000	2,371,600	860,000	**	85,591,600	38,800,000	2.21

*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, for some years the actual collection 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 Table 16 in the Occupation Tax section.

**Repealed effective after December 31, 1988.

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

	NATURAL ORE					TACONITE				
	LAKE ERIE VALUE/TON		TRANSPORTATION COSTS ($/TON)			LAKE ERIE VALUE/TON		TRANSPORTATION COSTS ($/TON)		
	Mesabi Non-Bessemer									
Year	Per Fe Unit	Per Ton	Rail*	Lake**	Total	Per Fe Unit	Per Ton	Rail*	Lake**	Total
1965	0.2049 x 51.5% Fe	10.55	1.47	2.17	3.64	0.252 x 65% Fe	16.38	1.47	2.17	3.64
1970	0.2097	10.80	1.74	2.31	4.05	0.266	17.29	1.74	2.31	4.05
1975	0.3472	17.88	2.92	3.91	6.83	0.4602	29.91	2.92	3.91	6.83
1976	0.3807	19.61	3.25	4.29	7.54	0.5134	33.37	3.25	4.29	7.54
1977	0.4099	21.11	3.52	4.56	8.08	0.5553	36.09	3.52	4.56	8.08
1978	0.4275	22.02	3.66	4.95	8.61	0.5851	38.03	3.70	4.97	8.67
1979	0.4613	23.76	4.07	5.45	9.52	0.6524	42.41	4.17	5.64	9.81
1980	0.5217	26.87	4.82	6.42	11.24	0.7289	47.38	4.86	5.84	10.70
1981	0.5811	29.93	5.88	7.47	13.35	0.7788	50.62	6.11	6.75	12.86
1982	0.6316	32.53	7.13	8.06	15.19	0.869[a]	56.49	4.61	8.08	12.69
1983	0.6175	31.80	6.96	8.09	15.05	0.869[a]	56.49	4.94	8.09	13.03
1984	0.6122	31.53	6.73	8.09	14.82	0.869[a]	56.49	4.98	8.09	13.07
1985	0.6122	31.53	6.73	8.09	14.82	0.725[b]	47.13	4.98	8.09[c]	13.07
1986	0.6122	31.53	6.73	8.09	14.82	0.725[b]	47.13	4.98	8.09[c]	13.07
1987 (1/1-4/30)	0.6122	31.53	6.73	8.09	14.82	0.725[b]	47.13	4.98	8.09[c]	13.07

* Rail transportation is from the mine to a port on Lake Superior.
** Lake transportation is from Lake Superior to a lower lake port.

a) Industry prices used for occupation taxes. One company (P-M) quoted a lower price (80.50) not used by the State.

b) 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. All companies were allowed to use .725 from 1/1/85 through 4/30/87.

c) 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.

Effective May 1, 1987, the Department of Revenue, Minerals Tax Division, modified the starting point for Occupation Tax from the Lake Erie Value to the Mine Value, which is the value of the ore at the mine, after beneficiation, but without any transportation charges. Two prices for taconite pellets were established, one for acid (regular) pellets and another price for flux (limestone added) pellets. Additional detail is provided in the Occupation Tax section.

MINE VALUE/TON (Natural Ore)

1987 (5/1-12/31)	0.3235 x 51.5% Fe	16.66
1988	0.3235 x 51.5% Fe	16.66

MINE VALUE/TON (Taconite)

Acid	.37344 x 65% Fe	24.34
Flux	.38888 x 65% Fe	25.28
Acid	.37344 x 65% Fe	24.34
Flux	.38888 x 65% Fe	25.28
Fines	.24065 x 65% Fe	15.64

TACONITE PRODUCTION TAX

The Taconite Production Tax is a tax paid on concentrates or pellets produced by the various taconite companies. It is paid "in lieu of" ad valorem taxes and with some exceptions also excludes active lands and structures used in the production of taconite from the same ad valorem taxes. (Special ad valorem taxes are discussed in more detail under "Unmined Taconite", page 32).

The taconite production tax rate for concentrates produced in 1988 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 1989 will be approximately $1.98 per taxable ton. The 1989 tax rate is the 1988 rate escalated by the percentage increase in the Gross National Product Implicit Price Deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year.

The revenues from the production tax are distributed by statutory formulas to various cities, townships, counties, and school districts within the taconite tax relief area (the area is comprised of the present taconite mining area plus areas where natural ore was formerly mined). Funds are also allocated to the Iron Range Resources and Rehabilitation Board (I.R.R.R.B.) which administers the Taconite Environmental Protection Fund, Northeast Minnesota Economic Fund, and its own funds for use in the taconite tax relief area.

LEGISLATIVE CHANGES

The 1988 legislature made the following changes with distribution year 1989:

1. Reduced the Taconite Property Tax Relief from 22-cents to 12-cents (M.S. 298.28, Subd. 5a).

2. A percentage of the principal and interest payment on school bonds (if issued) will be paid, in equal shares, by the Taconite Environmental Protection Trust and the Northeast Minnesota Economic Protection for the following school districts (Laws of Minnesota for 1988, Ch. 718, Art. 7, Sections 62 and 63). Payment was established at 80 percent for four districts, with the local district paying the remaining 20 percent which required approval of a bond referendum. District 710 payment was set at 100 percent due to special problems of a large geographically diverse rural district.

School	Aggregate Principal Not to Exceed	Percent of Payment
318-Grand Rapids	$1,000,000	80%
701-Hibbing	$3,500,000	80%
706-Virginia	$2,500,000	80%
708-Tower	$1,000,000	80%
710-St. Louis County	$1,000,000	100%

During the 1989 special session, the legislature made the following change for distribution year 1990:

> Increased the Taconite Property Tax Relief from 12-cents to 15-cents.

FLUX PELLETS

Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. Two companies, Inland Steel and USX, are producing fluxed pellets. Eveleth Mines is producing a partially fluxed pellet containing a low percentage of limestone additive. M.S. 298.24, Subd. 1, clause (e) allows the weight of flux added to be subtracted from the weight of pellets for production tax purposes. All tables in the Minnesota Mining Tax Guide with production statistics use an equivalent or calculated weight for fluxed pellets. The taxable weight is the natural weight less the weight of the flux. The weight of the flux is determined by a metallurgical calculation based on the analyses of the finished pellet, the concentrate, and the flux stone. Occupation tax is an exception to this and the full weight including flux continues to be used in that computation.

Beginning with 1988, a flux credit was allowed against production tax. To eliminate any errors concerning tonnage, this reconciliation will be shown annually.

RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGE

Company	Occupation Tax Production	Less: Flux	Production Tax Production
Erie (LTV)	7,888,582	-0-	7,888,582
Eveleth	4,256,464	(17,828)	4,238,636
Hibbing	8,653,270	-0-	8,653,270
Inland	2,383,107	(135,267)	2,247,840
National	4,610,736	(2,792)	4,607,944
USX	11,979,970	(131,010)	11,848,960
	39,772,129	(286,897)	39,485,232

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 1988 taconite production tax (payable 1989) are distributed by statute as follows (<u>all figures are cents per taxable ton</u>):

M.S. 298.28, Subdivision 1.		
1. Taconite Cities and Town:		2.5
2. Taconite Municipal Aid Account:		12.3
3. School Districts -		
a. Taconite schools (mining and/or concentrating in the district):	5.5	
b. School districts that qualify for taconite for taconite homestead credit in proportion to their levies:	22.0	
Basic School District Total:		27.5
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:		12.0**
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**

* For the 1988 production year, the cents-per-ton distribution was frozen at 20.5-cents for the county fund and 5.5-cents for the county road and bridge fund.

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 20.0-cents, I.R.R.R.B. was 5.0-cents, and the N.E. Minnesota Economic Protection Fund was 2.5-cents.

DESCRIPTION OF FUNDS

1. <u>Taconite Cities and Towns</u>

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. <u>Taconite Municipal Aid Account</u>

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 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, 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 (5a) on this page. The statutory references governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282.

3a. School District $.055 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 $.22 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)

Taconite school districts qualify for an additional $150 per pupil unit over and above state aids by passing a special 1.75 mill levy referendum. If the levy is not sufficient to meet the $150 requirement, then the Taconite Referendum Fund contributes the difference on July 15 of each year. The fund receives money based on the theoretically escalated portion of the 22-cent school fund. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Fund (one-third).

4a. Taconite Counties

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

b. Electric Power Plant

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county 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 (1) Taconite Cities and Towns, to be deposited in the county road and bridge fund.

5a. Taconite Property Tax Relief

A total of 12-cents per ton escalated by the Gross National Product Implicit Price Deflator is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

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

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

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941 (but does not exceed 60 percent) or currently has a taconite mine, processing plant or electric generating facility, the taconite credit is 66 percent of the tax on that property. Under current law, the credit increases $15 per year, which will make a maximum credit of $550 for taxes payable in 1989. 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 $495 for taxes payable in 1989. For taxes payable in 1990, these increase to $565 and $510 respectively.

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 $725 for taxes payable in 1989.

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

The 1988 legislature changed some of the property tax laws. Each classification of property will have a tax capacity based on its market value times tax capacity percentage. The new formula for taconite homestead credit may not reduce the effective tax rate to less than 95 percent of the payable 1988 effect tax rate. (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 on the preceding page) approximately .8881-cents of the 12.0-cents-per-ton in the Taconite Property Tax Relief account is distributed to the school district in which the power plant is located and approximately .2960-cents-per-ton is distributed to the county containing that power plant.

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. Amount: $3,160,899.

2. In 1978 and each year thereafter, there will be distributed to the Iron Range Resources and Rehabilitation Board the amount it received in 1977 from the distribution of the taconite and iron ore occupation taxes. Amount: $1,252,520.

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

4. A $240,000 payment is made from the production tax to School District 710 for payment of school bonds. An amount equal to four-cents per ton of Eveleth Mines taxable 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.

5. The 1988 legislature passed a provision that has the production tax pay a portion of the bonds issued by the following school districts: 318 (Grand Rapids), 701 (Hibbing), 706 (Virginia), 708 (Tower), and 710 (St. Louis County. Money for the payments are deducted, in equal shares, from the distributions made to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust. (Payments from this and previous legislation are shown in Table 9A, page 15).

6. The 1982 Legislature increased the taconite production tax credit to four-cents per taxable ton for school district bonds. However, a credit of seven-cents per ton is allowed for Independent School District 712, Mt. Iron-Buhl. The school bond credits are subtracted from the amount which would otherwise be distributed to the Northeastern Minnesota Economic Fund. These credits are for bond payments made by the companies and are not collected or distributed by the Department of Revenue.

M.S. 298.225 - The recipients of the taconite production tax as provided in M.S. 298.28, Subdivision 1, Clauses (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-cents City and Town Fund.
2. 12.3-cents 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. 13.0-cent Taconite County Fund.
2. 3.5-cent Taconite County Road and Bridge Fund.

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

1. 22-cent School Fund.
2. 5.5-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 Protection Fund as stated in M.S. 298.293.

PRODUCTION TAX "GRANDFATHER" AMOUNTS

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 8 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1989 are listed as follows:

(NOTE: The $8,025,241 is split between the local municipalities, counties and schools based upon the current tax capacity tax extension rate).

Total Listed by County Area:

St. Louis County	$ 3,643,572
Itasca County	2,226,457
Lake County	619,415
Crow Wing County	634,813
Aitkin County	$ 578,776
Cook County	318,731
Koochiching County	3,477
TOTAL PAYABLE IN 1989:	$ 8,025,241

Total Listed by School District Area:

001-Aitkin	$ 600,195
166-Cook County	318,731
182-Crosby/Ironton	613,394
316-Coleraine	373,002
318-Grand Rapids	1,690,458
319-Nash./Keewatin	162,997
381-Lake Superior	775,097
691-Aurora/H.L.	311,783
692-Babbitt	183,936
693-Biwabik	$ 84,590
695-Chisholm	164,136
696-Ely	183,145
697-Eveleth	318,535
699-Gilbert	93,787
701-Hibbing	635,690
706-Virginia	300,678
708-Tower/Soudan	202,461
710-St. Louis Cty.	782,312
712-Mt. Iron/Buhl	230,314
TOTAL PAYABLE IN 1989:	$ 8,025,241

The amount of taconite credit for mobile homes in 1989 was not available for the Minnesota Mining Tax Guide printing. This amount totaled $70,263 for taxes payable in 1988 and is not expected to change significantly for 1989. Mobile homes are taxed differently than other real estate in that they are assessed and taxed in the same year.

TABLE 5

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

1989 DISTRIBUTION (1988 PRODUCTION YEAR)
BASED ON 32,326,446 TAXABLE TONS

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.5
Taconite Municipal Aid	17.7
School Districts	44.5*
County	28.1
County Road and Bridge	7.3
Taconite Property Tax Relief	18.2
I.R.R.R.B.	10.0
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	9.8
Taconite Environmental Protection Fund	28.1
N.E. Minnesota Economic Protection Fund	6.9
School Bond Credits and Payment	5.4
1988 Court Case Credits	9.4
Bankruptcy Adjustments	.8**
	190.0

* 37.4-cents-per-ton will be subtracted from aids or levies a taconite school district would otherwise receive. The 5.5-cent and 22-cent school funds and the school portion of taconite railroad funds 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 bankruptcy of Reserve Mining Company. Due to its bankruptcy, $253,450 was not collected from Reserve Mining Company.

TABLE 6
SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1983	1984	1985	1986	1987	1988
City & Township	$ 1,362,133	$ 1,192,100	$ 1,157,812	$ 1,005,214	$ 1,037,379	$ 1,134,857
Taconite Municipal	6,701,700	5,855,757	5,696,443	4,949,028	5,177,066	5,707,488
School District - Regular	3,336,709	2,920,098	2,836,169	2,019,239	1,920,580	2,112,938
School District Fund	12,531,638	10,967,343	10,651,894	7,610,880	7,412,485	8,177,023
Taconite Referendum Fund	3,867,247	3,958,435	4,000,678	4,021,355	4,027,123	4,085,759
County	11,814,390	10,437,393	10,194,573	8,474,378	8,702,769	9,087,474
County Road & Bridge	3,043,061	2,688,626	2,626,006	2,197,104	2,269,243	2,371,223
Taconite Prop. Tax Relief	13,261,767	8,884,109	9,398,881	9,122,405	9,727,842	5,904,193
State	544,853	343,974	-0-	-0-	-0-	-0-
I.R.R.R.B. ($.03 Indexed)	2,161,750	1,958,162	1,903,782	1,650,487	1,760,279	1,994,855
Range Association of Municipalities & Schools	108,972	95,003	92,271	80,115	82,680	90,451
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	240,000	240,000	240,000	240,000	240,000	240,000
Other School Bond Payments						769,937
Taconite Environmental Protection Fund	6,029,799	8,719,590	9,201,969	3,334,820	4,397,896	9,075,227
N.E. Minnesota Economic Protection Fund	(2,076,400)	1,840,246	2,677,890	(460,662)	15,365	2,237,226
TOTAL:	$67,341,038	$64,514,255	$65,091,787	$48,657,782	$51,184,126	$57,402,070

* The production tax is collected and distributed in the year following production, e.g., the 1988 production tax was collected and distributed during 1989.

() Indicates the fund was short by this amount and a payment was made from the corpus of the fund to cover its obligations.

TABLE 7

TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1989

(Based upon 1988 Production Year Tax Revenues)
(Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite[a] Railroad	Taconite Municipal Aid	Total
COOK COUNTY				
Schroeder Township	$ ---	$ 47,700	$ -0-	$ 47,700
CROW WING COUNTY				
Crosby	---	---	102,745	102,745
Ironton	---	---	32,079	32,079
Riverton	---	---	2,865	2,865
Trommald	---	---	2,372	2,372
Irondale Township	---	---	13,349	13,349
Rabbit Lake Township	---	---	1,285	1,285
Wolford Township	---	---	458	458
ITASCA COUNTY				
Bovey	---	---	74,770	74,770
Calumet	---	---	36,744	36,744
Coleraine	---	---	94,429	94,429
Keewatin	24,645	---	113,810	138,455
Marble	---	---	65,849	65,849
Nashwauk	11,981	---	130,101	142,082
Taconite	---	---	30,983	30,983
Bass Brook Township	---	---	-0-	-0-
Grand Rapids Township	---	---	20,113	20,113
Greenway Township	15,259	---	35,908	51,167
Iron Range Township	---	---	12,485	12,485
Lone Pine Township	4,998	---	2,266	7,264
Nashwauk Township	14,100	---	23,978	38,078
LAKE COUNTY				
Silver Bay	84,830	152,706	187,422	424,958
Beaver Bay Township	---	12,565	---	12,565
Crystal Bay Township	---	6,951	---	6,951
Silver Creek Township	---	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
ST. LOUIS COUNTY				
Aurora	31	---	145,620	145,651
Babbitt	89,084	166,767	153,042	408,893
Biwabik	---	---	88,683	88,683
Buhl	---	---	102,527	102,527
Chisholm	---	---	399,059	399,059
Ely	---	---	245,061	245,061
Eveleth	39,897	---	320,347	360,244
Franklin	3,848	---	559	4,407
Gilbert	---	---	162,744	162,744
Hibbing	264,999	---	1,135,890	1,400,889
Hoyt Lakes	136,904	152,153	231,986	521,043
Kinney	4,840	---	58,121[b]	62,961
Leonidas	2,746	---	10,052	12,798
McKinley	---	---	16,682	16,682
Mountain Iron	275,896	---	311,494	587,390
Virginia	17,878	---	883,702	901,580
Balkan Township	---	---	65,487	65,487
Bassett Township	---	11,745	---	11,745
Biwabik Township	---	---	33,715	33,715
Breitung Township	---	---	17,414	17,414
Fayal Township	3,330	---	29,734	33,064
Great Scott Township	7,952	---	22,872	30,824
McDavitt Township	55,490	---	21,540	77,030
White Township	39,496	---	256,847[b]	296,343
Wuori Township	36,653	---	10,299	46,952
TOTALS:	$1,134,857	$591,142	$ 5,707,488	$7,433,487

[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 - 1989

(Does not include dollars from Taconite Property Tax Relief)

County	Regular County 15.5-Cents	County Road & Bridge 3.5-Cents	Taconite Railroad	Total
Cook	$ 97,354	$ ---	$187,190	$ 284,544
Itasca	521,795	136,464	---	658,259
Lake	694,582	179,255	243,034	1,116,871
St. Louis	7,773,743	2,055,504	354,153	10,183,400
TOTAL:	$9,087,474	$2,371,223	$784,377	$12,243,074

TABLE 9

TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS - 1989

(Does not include dollars from Taconite Property Tax Relief)

School Districts	$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001 - Aitkin	$ ---	$ 167,756	$ ---	$ 136,816	$ 304,572
166 - Cook County	55,938*	50,495	427,383	42,906	576,722
182 - Crosby-Ironton	---	256,472	---	160,285	416,757
316 - Coleraine	51,975	716,037	---	273,205	1,041,217
318 - Grand Rapids	---	612,375	---	438,713	1,051,088
319 - Nashwauk-Keewatin	124,897	244,372	---	132,757	502,026
381 - Lake Superior	126,664	619,608	552,774	365,376	1,664,422
691 - Aurora-Hoyt Lakes	241,083	676,538	345,802	246,925	1,510,348
692 - Babbitt	138,456	327,884	459,421	146,508	1,072,269
693 - Biwabik	69,535	166,401	---	76,324	312,260
695 - Chisholm	---	526,786	---	186,065	712,851
696 - Ely	---	236,763	---	139,426	376,189
697 - Eveleth	86,215	396,837	---	202,107	685,159
699 - Gilbert	---	243,845	---	98,040	341,885
701 - Hibbing	526,045	1,186,088	---	547,662	2,259,795
706 - Virginia	126,185	570,821	---	296,388	993,394
708 - Tower-Soudan	---	30,153	---	39,767	69,920
710 - St. Louis County	104,065	603,609	---	366,887	1,074,561
712 - Mt. Iron-Buhl	461,880	544,183	---	189,602	1,195,665
	$2,112,938	$8,177,023	$1,785,380	$4,085,759	$16,161,100

* Distribution resulting from the location of the LTV Steel Mining Company power plant.

TABLE 9A
SCHOOL BOND CREDITS AND PAYMENTS

School District	Credit	Payment	Total
318 - Grand Rapids	$ ---	$ 111,260	$ 111,260
319 - Nashwauk-Keewatin	133,712	---	133,712
701 - Hibbing	---	341,315	341,315
706 - Virginia	---	219,722	219,722
708 - Tower-Soudan	---	97,640	97,640
710 - St. Louis County	---	240,000	240,000
712 - Mt. Iron-Buhl	586,496	---	586,496
TOTAL:	$720,208	$1,009,937	$1,730,145

TABLE 10
TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1988

Firm	Production Tons	Taxable Tonnage[1]	Production Tax Rate	Tax Collected[2] After Credits
LTV Steel	7,888,582	6,298,625	$1.90	$11,967,387
Eveleth	4,238,636	3,725,202	1.90	6,853,654
Hibbing	8,653,270	7,073,544	1.90	13,164,679
Inland	2,247,840	2,057,984	1.90	3,778,320
National	4,607,944	4,314,617	1.90	7,686,735
Reserve	-0-	477,966	1.90	-0-
USX	11,848,960	8,378,508	1.90	13,951,295
TOTAL:	39,485,232	32,316,484	$1.90	$57,402,070

ESTIMATED FOR PRODUCTION YEAR 1989

Firm	Production Tons	Taxable Tonnage[1]	Production Tax Rate	Tax Collected[2] After Credits
LTV Steel	7,400,000	7,350,000	$1.981	$14,572,000
Eveleth	4,800,000	4,170,000	1.981	8,269,000
Hibbing	8,100,000	8,150,000	1.981	16,142,000
Inland	2,200,000	2,190,000	1.981	4,337,000
National	4,500,000	4,470,000	1.981	8,735,000
Reserve	-0-	-0-	1.981	-0-
USX	11,800,000	10,440,000	1.981	19,955,000
TOTAL:	38,800,000	36,770,000	$1.981	$72,010,000

1) The taxable tonnage is the average production of the current year and previous two years.
2) Production tax revenue after school bond credits have been taken.

TABLE 11

TACONITE PRODUCED (000's) AND PRODUCTION TAX COLLECTED (000's) 1955 - 1989

Year	Production Tons	Production Tax Collected	Collection Rate Production Ton	Taxable* Tons	Tax Rate 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	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989 Est.	38,800	72,010	1.856	36,770	1.981

* 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.

TABLE 12

SUMMARY OF THE 1988 PRODUCTION TAX

Firm	Taxable Tonnage	Tax Rate	Total Tax Before Credits	Erie II Court Case Credits	School Bond Credits	Bankruptcy Adjustments	Net Tax Collected
Butler	-0-	$1.90	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
LTV Steel Mining Co.	6,298,625	1.90	11,967,387	-0-	-0-	-0-	11,967,387
Eveleth	3,725,202	1.90	7,077,884	224,230	-0-	-0-	6,853,654
Hibbing	7,073,544	1.90	13,439,734	275,055	-0-	-0-	13,164,679
Inland	2,057,984	1.90	3,910,170	131,850	-0-	-0-	3,778,320
National	4,314,617	1.90	8,197,772	377,325	133,712	-0-	7,686,735
Reserve	477,966	1.90	908,135	654,685	-0-	253,450	-0-
USX Corporation	8,378,508	1.90	15,919,165	1,381,374	586,496	-0-	13,951,295
TOTALS:	32,326,446	$1.90	$61,420,247	$3,044,519	$720,208	$253,450	$57,402,070

PRODUCTION TAX CREDITS RESULTING FROM THE ERIE II COURT CASE

PRODUCTION YEAR

Firm	1984	1985	1986	1987	1988	TOTAL
Butler	$ 250,926	$ 165,856	$ 163,217	$ 149,198	$ -0-	$ 729,197
LTV Steel Mining Co.	1,319,237	780,864	768,442	-0-	-0-	2,868,543
Eveleth	324,161	259,429	255,302	233,373	224,230	1,296,495
Hibbing	397,307	318,230	313,168	286,269	275,055	1,590,029
Inland	230,102	152,547	150,120	137,226	131,850	801,845
National	678,702	436,553	429,608	392,709	377,325	2,314,897
Reserve	1,289,869	757,450	745,400	681,378	654,685	4,128,782
USX Corporation	2,435,547	1,598,209	1,572,784	1,437,694	1,381,374	8,425,608
TOTALS:	$6,925,851	$4,469,138	$4,398,041	$3,317,847	$3,044,519	$22,155,396

The credits consisted of all interest to date plus one-fifth of the initial principal and was paid back by not collecting that amount of money from each firm. The production year credits were applied to the taxes payable in the following year. For example, the 1988 production year credits were applied to the taxes payable in 1989.

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 includes an alternative minimum tax (page 24). The corporate franchise tax rate was reduced from 12% to 9.5%, effective for calendar year 1987.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

Calculation of taxable value involves two steps. The first step, determination of the ore value at the mouth of the mine (ore prior to processing), is the starting point for Minnesota's occupation tax. Because no published price exists for ore at the mouth of a mine, the value is calculated rather than directly set by the market. To get to this price, or value, requires starting with a published price after processing but before shipping (called the Mine Value) and deducting the allowable processing cost.

Expenses subtracted from the Mine Value of iron ore to arrive at the mouth of the mine value are known as Nonstatutory Deductions. These deductions are not specified by statute but result from administrative practice and court decisions regarding valuation. Included in this expense category are stockpiling and loading costs, beneficiation (ore processing) costs, sales and use tax, and other miscellaneous expenses incurred beyond the mouth of the mine which are quoted in the Mine Value of ore.

The second step is the procedure of determining the value of ore for tax purposes. Subtracted from the value of iron ore at the mouth of a Minnesota mine are certain expenses, specified by statute, called the Statutory Deductions. Some of the major 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 prorated 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, beginning January 1, 1987, the total production tax of $1.90 per taxable ton is an allowable deduction. Previously, only $.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 nonproducing 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 - Assets in this category include all crushing and processing facilities and associated equipment, tailings basins, 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 are included in this category.

Taconite facilities are allowed depreciation at a rate of four percent (4%) per year on grouped assets for the beneficiation plant and standard plant and ten percent (10%) per year for motorized equipment. Natural ore producers are allowed depreciation at a rate of five percent (5%) per year for the beneficiation and standard plants with ten percent (10%) for motorized equipment. The total depreciation deduction is limited to ninety percent (90%) of the depreciable assets remaining on hand at the end of the 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 from the value of ore at the mouth of the mine, 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 allowance, royalty taxes and loss carryovers. A percentage of certain expenses is allowable. Included are: legal fees, out-of-state administrative expenses related to Minnesota operations, and other miscellaneous expenses.

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.

Taconite producers benefitted from the labor credit since they began operations in the 1950's. Beginning in 1985, this credit was extended to natural ore producers. The maximum labor credit allowed is 8.25 percent, which currently reduces the 14 percent tax rate to a net effective occupation tax rate of 5.75 percent. 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 by the 1984 legislature to ore stockpiled from previous years.

1988 OCCUPATION TAX PAID OR REFUNDED

TACONITE COMPANY	NET EFFECTIVE RATE	1988 OCCUPATION TAX DUE	1988 REFUNDS
Eveleth Mines	5.75%	$ -0-	$147,263
Hibbing Taconite	5.75%	1,945,522	-0-
Inland Steel	5.75%	-0-	-0-
LTV Steel Mining Co. (Erie)	5.75%	-0-	29,153
National Steel	5.75%	-0-	4,558
USX Corporation	5.75%	1,047,712	-0-
TOTALS:		$2,993,234	$180,974
NATURAL ORE COMPANY			
LTV Steel Company	5.75%	$ 294,368	
TOTAL:		$ 294,368	

TABLE 13

IRON ORE AND TACONITE PRODUCED IN MINNESOTA (000's) AND OCCUPATION TAX COLLECTIONS (000's)

1955 - 1988

	Iron Ore		Taconite		Totals	
Year	Tons Produced	Occupation Tax	Tons Produced	Occupation Tax	Tons Produced	Occupation 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	1,403	789	32,109**	5,356	33,512	6,145
1988	743	294	39,772**	2,993	40,515	3,287
1989 Est.	750	300	38,800	2,500	39,550	2,800

* Adjusted by provisions of M.S. 298.40 (see Table 16).

** 1987 - 32,108,759 tons including flux additives; 32,043,049 tons without flux (used for production tax purposes).
1988 - 39,772,129 tons including flux additives; 39,485,232 tons without flux (used for production tax purposes).

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	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	18.304	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[a]	24,017	47.143	18.747	13.188	.902	3.754	.884	3.215	1.264	1.498	3.691	.259
1987	32,109	26.765[b]	15.774	.053	.556	4.407	.557	2.388	.996	1.281	.754	.167
1988	39,772	24.325	15.093	-0-	.864	4.609	.474	1.740	.978	1.180	(.613)	.075

(1) Cost of beneficiation is the total of Line 3 - Beneficiation Labor, Supplies, Depreciation and Interest, Line 6 - Marketing, and Line 7 - Sales and Use Tax.

(2) Transportation is the rail and lake transportation allowance from the occupation tax directives, as shown on Schedule 4A.

(3) Cost of mining is the total of Line 9A - Mining Labor, Line 9B - Mining Supplies, and Line 13 - Taxes.

[a] The 1986 numbers do not include Reserve Mining, which ceased production in August, 1986 due to bankruptcy.

[b] The starting point for occupation tax changed from the Lake Erie Value (F.O.B. lower lake port) to a Mine Value (F.O.B. mine) on May 1, 1987. The exact values are shown on Schedule 4A.

TABLE 15

OCCUPATION TAX REPORT PER TON COSTS (000's)
TACONITE ONLY

BENEFICIATION

	Tons Produced	Beneficiation Labor	Per Ton	Beneficiation Supplies	Per Ton	Beneficiation Depreciation & Interest	Per Ton	Beneficiation/ Miscellaneous Per Ton	Total Beneficiation 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
1987	32,109	70,993	2.211	314,491	9.794	112,667	3.509	.080	15.594
1988	39,772	90,047	2.263	389,070	9.779	109,732	2.758	.101	14.901

MINING

	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	44,428	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
1987	32,109	40,239	1.253	47,179	1.469	2.722	.556	3.278
1988	39,772	55,238	1.388	67,491	1.696	3.084	.474	3.558

* The 1986 numbers do not include Reserve Mining, which ceased production in August, 1986 due to bankruptcy.

M.S. 298.40 AND THE TACONITE AMENDMENT

INTRODUCTION

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 then existing taconite producers and any new taconite producers through 1989. The 1990 occupation tax will be based upon the Corporation Income Tax Provisions, which have generally been the limitation imposed by M.S. 298.40. The comparative calculation explained on this page will be discontinued after 1989.

APPLICATION OF THE COMPARATIVE CALCULATION

Three calculations are prepared according to: A) the laws of 1963, B) current year (Corporate Franchise) laws for a hypothetical Minnesota manufacturing corporation, and C) current year occupation tax laws. Calculations (A) and (B) are compared with the higher of these becoming the tax limitation. If the total taxes in (C) are greater than the limitation, then the difference is either not collected, or, if previously paid, refunded. The application of this provision follows:

THE COMPARATIVE CALCULATIONS ILLUSTRATED

(A) Laws of 1963	(B) Current Year Laws	(C) Current Year Laws
1) Occupation Tax 2) Royalty Tax	1) Corporate Franchise Tax or Alternative Minimum Tax on Taconite Facilities 2) Sales Tax Paid 3) Sales Tax Exempt for Taconite Only	1) Occupation Tax 2) Royalty Tax 3) Sales Tax
Total for Limitation Purposes	Total for Limitation Purposes	Total Taxes Limited by M.S. 298.40

BACKGROUND

For several years, the State of Minnesota and taconite producers were involved in litigation resulting from differing interpretations of the taconite amendment. Although the State generally prevailed in the litigation, taconite companies paid taxes in excess of the limitation for some years. Prior to 1985, Minnesota law did not provide for occupation tax refunds. Accordingly, substantial credits due the mining companies resulted from application of M.S. 298.40.

Since 1981, over $56.3 million in taxes was not collected in order to reduce credits owed to the taconite industry. At the end of Fiscal Year 1989 (June 30, 1989), credits still owed to the taconite companies exceeded $11 million. For further detail on the credits and the taxes applied to offset these credits, see the M.S. 298.40 credit summary (Table 16).

EFFECTS OF LEGISLATIVE CHANGES

The 1985 legislature authorized refunds of overpayments beginning with taxes payable in 1985. Because refunds were statutorily prohibited for prior years, credits for these years are adjusted by not collecting current occupation and sales and use tax due. Remaining credit balances are directly refunded through appropriations for one-half of the credit balance effective July 1, 1987 and one-half effective July 1, 1989.

OCCUPATION TAX - 1990

The Occupation Tax on taconite and iron ore will change after December 31, 1989. As of January 1, 1990, this tax will be computed under most of the same provisions as the corporate franchise (income) tax. All taconite companies have been preparing this tax return as the hypothetical income tax portion of the M.S. 298.40 limitation calculation worksheet.

The starting value of this modified occupation tax will continue to be the mine value, determined by the Commissioner of Revenue and published in the annual occupation tax directive. The tax will apply only to the Minnesota mine and plant (non-unitary).

The two major differences from the existing occupation tax are:

1. All shipments to out-of-state steel plants will be considered non-Minnesota sales for purposes of apportionment. This means that only 30 percent of the mining income will be subject to the 9.5 percent franchise tax.

2. The allowance of percentage depletion.

TRANSITION RULES

Some transition provisions are necessary due to the differences between the occupation tax and the corporate franchise tax. The transition rules involve the treatment of depreciation, basis of mining assets, and net operating losses (NOL's).

Depreciation

No depreciation is allowed for assets fully depreciated under the existing tax. The same depreciation deduction as allowed for federal tax purposes shall be allowed for all assets placed in service in 1990 and thereafter. For assets placed in service prior to 1990 which are not fully depreciated, the depreciation deduction shall be the same as that allowed under the corporate franchise tax. After the assets are fully depreciated for federal tax purposes, any basis not deducted under the occupation or franchise tax is allowed as a deduction according to the same schedule used for ACRS modifications under the franchise tax.

Basis for Determining Gain or Loss from the Sale of Mining Assets

This basis shall be the same as the adjusted basis used to calculate the hypothetical corporate income tax.

Net Operating Loss

Any NOLs determined under the hypothetical corporate income tax prior to 1990 shall be allowed to be carried forward.

The Minerals Tax Division will be developing a modified corporate income tax return for use by the taconite companies in preparing this tax return.

Even though the tax follows most of the provisions of the corporate franchise (income) tax, the return will continue to be filed with the Minerals Tax Division, using the normal occupation tax filing dates.

ALTERNATIVE MINIMUM TAX

The current AMT, which expires on December 31, 1989, is the excess of the Minnesota property, payroll, and sales times .001 (one-tenth of one percent) over the regular corporate franchise tax.

This is expected to be replaced by a new AMT based upon the federal corporate AMT. This bill also provided for a corporate surtax to make up for any lost revenue due to the repeal of the existing AMT. The bill in the 1989 legislature adopting these provisions was vetoed by the Governor, for reasons unrelated to the AMT.

The 1990 legislature is expected to pass an AMT bill which will be retroactive to January 1, 1990.

For mining companies, the gross income for a federal based AMT would be determined in the same manner as that for the regular occupation tax. The deductions allowed against gross income would be more restrictive. The deductions for depreciation and depletion would be limited to the amounts allowed under the federal AMT laws.

However, the adoption of the federal AMT laws is still tentative. Members of the legislature, representatives of the business community, and the Department of Revenue will continue to meet to review and discuss various options regarding the corporate AMT.

This tax also applies to the mining of other minerals, such as gold, silver, copper or nickel.

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)	Net Occupation Tax Due	Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[1]	Actual Tax Collected	M.S. 298.40 Credit Due
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	5,355,872	-0-	5,355,872	-0-	5,355,872	(14,594)*
1988	2,993,234	-0-	2,993,234	-0-	2,993,234	(33,711)*
		$ (17,760,256)		$(35,196,683)		

SALES AND USE TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[2]	Actual Tax Collected
1982	$7,246,363	$ (750,261)	$6,496,102
1983	5,765,048	(2,613,605)	3,151,443
1984	7,110,166	(4,283,181)	2,826,985
1985	6,476,570	(4,216,360)	2,260,210
1986	4,890,472	(2,399,142)	2,491,330
1987	5,286,947	(1,827,482)	3,459,465
1988	8,351,535	(1,149,975)	7,201,560
		$(17,240,006)	

RAILROAD GROSS EARNINGS TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[3]	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	1,404,961	-0-	1,404,961
1988	1,397,211	-0-	1,397,211
		$(3,929,980)	

* This amount refunded when occupation tax due (June 14 of each year).

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

1,2,3 Total taxes not collected to repay the taconite companies for taxes paid which exceeded the M.S. 298.40 limitation: $56,366,669.

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; however, because of the terms written in the mining leases at that time, the courts 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.

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 currently 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. A labor 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 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.

Effective after December 31, 1986, the royalty tax on all other minerals was repealed. *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.* See Income Tax Withholding on Mining and Exploration Royalty (page 28).

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. This royalty income must be reported on a Minnesota Income Tax Return.

Minnesota Income Tax Filing Requirements

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:

Taxpayer Information
Minnesota Dept. of Revenue
10 River Park Plaza
Mail Station 3320
St. Paul, MN 55146-3320

TABLE 17
IRON ORE, TACONITE & OTHER ORE*, ROYALTY TAX
(000's)

Year	Iron Ore Royalty Tax	Taconite Royalty Tax	Other Ore Royalty Tax	Total Revenue
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	352	1,959	N/A	2,311
1988	179	2,540	N/A	2,719
1989 Est.	323	2,371	N/A	2,695

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

TABLE 17A
ROYALTY COST PER TON OF PELLETS PRODUCED

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
Butler	0.714	1.139	1.815	1.859	2.023	1.766	1.743	1.954	Closed	Closed	Closed
Erie (LTV)	0.314	0.954	1.749	1.807	2.152	2.400	2.161	2.289	2.144	1.897	1.496
Eveleth	0.949	2.218	3.578	3.885	3.751	3.553	3.312	3.333	2.808	2.472	3.802
Hibbing	N/A	N/A	0.875	1.198	1.301	1.492	0.521	1.209	1.104	0.928	1.028
Inland	N/A	N/A	1.212	1.222	1.528	1.694	1.829	1.801	1.613	1.604	1.334
National	0.549	0.974	1.525	1.695	1.764	1.734	1.821	2.001	1.825	1.648	1.678
Reserve*	1.120	1.919	2.820	3.338	3.482	3.321	3.372	3.087	0.882	Closed	Closed
USX-Minntac	0.000	0.171	0.288	0.302	0.153	0.294	0.334	0.334	0.277	0.268	0.284
Industry Average:											
Weighted:	0.587	1.019	1.454	1.750	2.026	1.714	1.693	1.647	1.471	1.288	1.179
Arithmetic:	0.729	1.229	1.732	1.913	2.019	2.111	1.886	2.001	1.521	1.469	1.437

*Reserve's royalty costs per ton are based upon shipments, not production.

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

Beginning January 1, 1990, the payer of mining and exploration royalty will be required to withhold and remit to the Department of Revenue an income tax on royalty payments made for use of Minnesota land. The withholding rate will be seven percent of the royalties paid during the year.

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 or remove ore therefrom. The ores subject to the withholding are iron ore, taconite and other minerals subject to the Net Proceeds Tax. Royalties can include rents, bonus payments, and non-recoverable lease payments.

MINNESOTA TAX IDENTIFICATION NUMBER

All payers of royalty who withhold Minnesota income tax must have a current Minnesota tax identification number. Companies not having a current number must complete an application for a Minnesota Tax Identification Number, Form MBA.

FORMS, RETURNS, PROCEDURES

The forms, returns and procedures used to report and deposit the required withholding are identical to those used for Minnesota wage withholding. The payer is required to furnish all royalty recipients with a W-2 form showing all royalty paid and income tax withheld by January 31st. This information must also be provided to the Commissioner of Revenue by February 28th.

DEPOSITING AND FILING REQUIREMENTS

Withholding tax becomes due when wages and/or royalty are actually paid, not when the work was performed or royalty was accrued. If the wage or royalty was accrued in December, for example, but not paid until January, the tax is withheld in January, not December.

The depositing and filing requirements for the withholding tax are explained hereafter. Each year is divided into four quarters ending March 31, June 30, September 30, and December 31. Every employer is required to file a quarterly return for each of these quarters even if the employer/royalty payer had no withholding during the quarter. In addition, some employers/royalty payers may also have to make more frequent deposits of tax withheld during the quarter. A deposit is defined as the timely remittance of the necessary form with payment to the Commissioner of Revenue. The State of Minnesota does not permit bank deposits of withholding as does the federal government. Minnesota withholding tax is sent to:

Minnesota Department of Revenue
MW 5555
P. O. Box 66117
St. Paul, Minnesota 55166-0005

The total amount of accumulated undeposited withholding tax will determine how often a deposit will be required to be made. A deposit may be required as many as eight times per month or as seldom as once per quarter.

Every month is divided into eight "eighth-monthly" periods. The eighth-monthly periods end on the 3rd, 7th, 11th, 15th, 19th, 22nd, 25th, and the last day of the month. If the aggregate of undeposited royalty and wage withholding is $3,000 or more at the close of any eighth monthly period, the undeposited withholding must be deposited within three banking days after the close of the eighth monthly period. Legal holidays, Saturdays and Sundays are not considered banking days so they are not included in the three banking days.

Example A

If the tax withheld on wages and/or royalty paid from April 1 through April 3 is $3,500, the tax must be deposited within three banking days.

Example B

If the tax withheld on wages and/or royalty paid from April 4 through April 7 is $2,500, no deposit is required for the eighth-monthly period ending on April 7. If the tax withheld on wages paid from April 8 through April 11 is $2,000, the total undeposited tax is now more than $3,000 ($2,500 + $2,000 = $4,500). The $4,500 tax must be deposited within three banking days from April 11.

If deposits are not required under the eighth-monthly rule, it may be necessary to make monthly deposits.

If the total undeposited withholding tax is $500 or more but less than $3,000 at the end of either the first or second month of the quarter, a monthly deposit will be required by the 15th day of the following month. A monthly deposit is not required if an eighth-monthly deposit has already been made.

Example C

If the tax withheld in April is $600, a deposit of $600 must be made by May 15th.

Example D

If the tax withheld on wages/royalty paid in April is $150, no deposit is required for April. If the tax withheld on wages/royalty paid in May is $400, add the $150 from April to the $400 for May and deposit the $550 total by June 15th.

It may be necessary to make a deposit under the eighth-monthly rule and the monthly rule during any one quarter.

Example E

If the tax withheld on wages/royalty paid April 17th is $3,200, a deposit must be made for the eighth-monthly period ended April 19th within three banking days. If at the end of April there is an undeposited tax of $600, carry the $600 over to May. If at the end of May there is only $2,800 undeposited tax, the deposit must be made by June 15.

TAX EXEMPTIONS

The following royalty recipients are not subject to royalty withholding:

1. Partnerships and both "C" and "S" corporations. Neither of these are required to file an exemption certificate.

2. Simple trusts. The royalty payer will not be required to withhold when paying royalty to a simple trust (a trust which annually distributes all of the trust income to its beneficiaries). *The trust, however, will be required to withhold on the amount of royalties it distributes to its beneficiaries.*

3. Federally tax-exempt organizations.

4. Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year. Non-resident individuals will not incur a Minnesota income tax liability for 1990 if their Minnesota assignable gross income is less than $5,000.

If a recipient of royalties falls into one of the above categories other than #1, they must submit to the payer of the royalty a withholding exemption certificate. To obtain a tax-exempt status, Federal Form W-4 must be submitted to the royalty payer. The payer of the royalty will then be relieved from Minnesota withholding on royalty payments made to that payee. Within 30 days of receipt of the exemption certificate by the payer, the payer must submit copies of the certificate to the Commissioner of Revenue. In the absence of an exemption certificate, a payer is required to withhold seven percent of the royalties paid. If the payer does not withhold, the payer may be liable for tax, penalty, and interest on the amount which was not withheld. Therefore, it is very important to receive exemption certificates from all payees who will not have a Minnesota income tax on royalties they receive.

SUBLESSEE APPLICATION

As mentioned, the rate of withholding is seven percent of the royalties which will be retained by the payee. In the case where a mining company pays a sublessee a royalty of $100,000 and the sublessee must pay the actual owner of the property $75,000, the amount the mining company will withhold will be seven percent of $25,000. At the time the sublessee pays the actual owner of the property the $75,000, the sublessee will be required to withhold seven percent of $75,000.

QUESTIONS/FORMS

The withholding tax will be administered by the Business Trust Tax Office, Minnesota Department of Revenue, in St. Paul, Minnesota. Inquiries should be directed to:

Technical Support Group
Minnesota Dept. of Revenue
10 River Park Plaza
Mail Station 4453
St. Paul, MN 55146-4453
1-800-652-9747
(612) 296-6181

Forms can be obtained by contacting:

Forms Distribution
Administrative Services
Minnesota Dept. of Revenue
10 River Park Plaza
Mail Station 4451
St. Paul, MN 55146-4451
(612) 296-9118

A Minnesota Income Tax Withholding Instruction Booklet is available for assistance in complying with the withholding laws. This booklet is designed for withholding on Minnesota wages but does contain general information which will also pertain to royalty withholding.

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 industrial production exemption, M.S. 297A.25, subd. 9 allows industry to exempt items from Sales and Use Tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item 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. 9, 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, shovel bucket lip and lower wing shrouds, cat and grader blade cutting edges, drill bits and reamers are examples of items that qualify for this 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. 15, liners are exempt from the Sales and Use Tax. For a detailed explanation and the type of items qualifying for this exemption, consult the Minnesota Sales and Use Tax Rules and Regulations, section 8130.9600.

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 of machinery or equipment used to extract, receive or store raw materials.

The Minerals Tax Division has the responsibility of insuring compliance by the iron ore industry with the Sales and Use Tax Law. In the interest of better administrative control, the Revenue Department does authorize Direct Pay Permits to any concern which supports extensive and varied purchase inventories.

YEAR	SALES TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	SALES TAX COLLECTED
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	5,286,947	1,827,482	3,459,465
1988	8,351,535	1,149,975	7,201,560
1989 Est.	7,500,000	129,744	7,370,256

AD VALOREM TAX ON TACONITE RAILROADS

Prior to 1989, every taconite railroad company operating in the state had to annually pay into the state treasury a sum equal to 3.75 percent of the gross earnings derived from operations within the state.

Beginning with the January 2, 1989 assessment, taconite railroads have been included in the definitions of "common carrier" railroads and will be assessed and taxed on an ad valorem basis pursuant to the sections of Minnesota Statutes 270.80 through 270.88.

The State Assessed Properties Section, Local Government Service Division, of the Minnesota Department of Revenue has developed strict rules governing the valuation, apportionment, and equalization of railroad operating property. These rules have been in effect since 1979 when common carrier railroads went off the gross earnings.

Each railroad is required to file an annual report containing the necessary information for the State Assessed Property Section to complete their valuation and apportionment.

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

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

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

A taconite railroad will then receive tax bills from the county similar to any other taxpayer showing the equalized market value in each taxing district and the amount of taxes due. The first half payment of taxes assessed for the 1989 assessment are due May 15, 1990 with the second half payment due October 15, 1990.

GROSS EARNINGS TAX ON TACONITE RAILROADS

Calendar year 1988 was the last year of the gross earnings tax on taconite railroads. The following is a summary of the gross earnings tax collections from 1980 through 1988:

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	$1,189,462
1986	$1,670,756	$ 815,194*	$ 855,562*
1987	$1,404,961	-0-	$1,404,961
1988	$1,397,211	-0-	$1,397,211

*Not collected. Pre-petition bankruptcy liability.

M.S. 298.26 TAX ON UNMINED TACONITE

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

The heading on M.S. 298.26 is somewhat misleading in that it refers to a TAX ON UNMINED IRON ORE OR IRON SULFIDES. The tax clearly applies to unmined taconite and has been administered in that manner. The wording "iron ore" does not refer to high-grade natural ore in this instance.

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

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

The categories are listed as follows:

(1) Those lands which are underlain by magnetic taconite of sufficient quantity and grade to be currently economic. They are considered to be "GOOD" taconite and are given a market value of $500.00 per acre.

(2) Lands either not believed or not known to be underlain by magnetic taconite of currently economic quantity and grade. They are considered to be "NO GOOD" taconite and are given a market value of $25.00 per acre.

To be classified as "GOOD" taconite [Category (1)], the taconite must pass the following criteria:

--contain more than 16 percent magnetic iron
--contain less than 10 percent concentrate silica (SiO_2)
--have a 15-25 foot minimum mining thickness
--have a weight recovery of more than 20 percent
--have a stripping ratio of less than four-to-one (waste/concentrate), calculated as follows:

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

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

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

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

If the material fails any of the above criteria, then it is considered to be "NO GOOD" taconite and classified as category (2).

The tax is calculated by multiplying the market value for the parcel of land times 5.25 percent times the tax capacity tax extension rate for that specific tax area. (NOTE: Call your county assessor for more information).

TABLE 18 - UNMINED TACONITE TAX (YEAR PAYABLE)*

County	1984	1985	1986	1987	1988	1989
Itasca	34,741	34,485	36,123	**	**	**
St. Louis	296,228	286,904	360,546	384,697	392,614	365,244
Totals:	330,969	321,389	396,669	384,697	392,614	365,244

* Taxes assessed may not be actual amount collected.
** Itasca County has decided not to collect the Unmined Taconite Tax.

AD VALOREM TAX ON AUXILIARY MINING LANDS FOR TACONITE OPERATIONS

Lands and structures actively used for taconite production are exempt from the ad valorem tax and in lieu of property tax, are subject to the production tax. These actively used lands include the plant site, mining pit, stockpiles, tailings pond, and water reservoirs. Lands adjacent to these facilities, commonly referred to as auxiliary mining lands, are subject to assessment of ad valorem tax administered by the county.

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

	VALUE ($/ACRE)	CLASSIFICATION
1. IRON FORMATION LAND		
A. Land within 1/4 mile of active pit or planned 15-year pit limit without 1/4 mile buffer, whichever limit is greater.	$350	Industrial
B. Excess land (more than 1/4 mile from mining activity or outside 15-year pit limit).		
1. Undisturbed	Same as other private land	Timber or current use
2. Disturbed		
a. Stockpiles	75% of other private land	Timber or current use
b. Abandoned Pits	50% of other private land	Timber or current use
2. OFF-FORMATION LAND		
A. Land within 1/4 mile of mining activity	$250	Industrial
B. Excess land (more than 1/4 mile from mining activity).		
1. Stockpiles	75% of other private land	Timber or current use
2. Tailings Ponds	30% of other private land	Timber or current use

For the industrial classification, the assessor's estimated market value (EMV) is multiplied by 5.25 percent to obtain gross tax capacity which is then multiplied by the tax extension rate to calculate tax payable. In St. Louis County, the tax extension rates varied from a low of about .9 to a high of approximately 1.43.

The gross tax capacity for the timber classification, on the other hand, is 2.25 percent of the EMV with the taxpayer receiving a state-paid agricultural credit equal to 26 percent of the tax payable. For taxes payable in 1989, the effective tax rate for the industrial classification is 3.75 times the timber classification effective tax rate. These gross tax capacity rates and credit percentages are set by the Minnesota legislature.

This schedule provides for adjustments in both the valuation and classification of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It also outlines valuation adjustments to be made on excess lands (those located more than 1/4 mile from mining activity) that have been disturbed by natural ore mining activity. The above schedule was implemented in St. Louis County over the past two years and is subject to change as market conditions and/or Minnesota statutes dictate.

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

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

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 Hoskold factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves.

The resulting value is considered to be Market Value by the Department of Revenue.

The 1988 legislature enacted substantial property tax reform beginning with taxes payable in 1989. The new law starts with market value and applies a statutory classification called "tax capacity percentage" to obtain "tax capacity". In the case of iron ore, this percentage is 5.25 percent. The statutory 5.25 percent is then multiplied by three in accordance with M.S. 273.1104. Thus, the effective tax capacity percentage for iron ore is 15.75 percent. The tax capacity is then normally multiplied by the "tax capacity rate" to determine the tax, providing that no unique reductions apply to the particular taxing district.

The 1989 legislature, in a special session on September 28th and 29th, continued work on the property tax reform issue. An effort was made to reduce the differential between homestead property and business property. Also, further changes in terminology were introduced. The term "class rate" is introduced for taxes payable in 1990. The class rate for Class 5 property which includes unmined iron ore is 5.06 percent. All classes of property with a 5.06 percent class rate have a target class rate of four percent which the governor and legislature will attempt to achieve in future years through a phase-in period. The tax capacity will be the product of the class rate and the market value. The class rate for iron ore must still be multiplied by three in accordance with M.S. 273.1104. The product of the market value and class rate times three must then be multiplied by the local tax rate to determine the tax. The term "tax capacity rate" is replaced by local tax rate. This would once have been called a mill rate.

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 major revisions were made in 1974, 1986 and 1988. The "Market Values" for iron ores which do not show a value with the Hoskold Formula are determined from the schedule of minimum rates.

Effective on January 2, 1988 for taxes payable in 1989, a new schedule of minimum rates expressed as Market Value was adopted by the Department. The previous schedule which had been in effect since January 2, 1986 did not fully reflect current conditions in the iron ore industry. The new schedule listing "Market Value" per ton is listed on the following page.

MINIMUM RATES

Open Pit Uneconomic	Ore Classification	Market Value/Ton (Cents)
(Stripping ratio less than five-to-one)	Wash Ore Conc. (OPC)	4.0
	Heavy Media Conc. (HMC)	3.0
	Low Grade (OPPRC)	1.0
Underground Uneconomic		
(Stripping ratio greater than five-to-one)	Underground Conc. >60% Fe (UGC)	.8
	Underground Conc. <60% Fe (UGC)	.6
	Underground Heavy Media (UGHM)	.5
	Low Grade (UGPRC)	.3

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

Number of Tons x .6-Cents/Ton = Market Value

The tax would then be determined using the tax capacity formulas explained previously. A record of iron ore market values and ad valorem taxes assessed since 1976 are listed as follows:

YEAR ASSESSED	MARKET VALUE	YEAR PAYABLE	TAX PAYABLE COUNTY	LOCAL	TOTAL
1975	$24,970,129	1976	$1,860,429	$2,599,476	$4,459,905
1976	26,113,003	1977	1,741,437	2,298,178	4,039,615
1977	26,657,969	1978	1,838,862	2,401,434	4,240,296
1978	28,973,611	1979	1,920,313	2,483,562	4,403,875
1979	30,526,244	1980	2,193,940	2,149,087	4,343,027
1980	26,772,233	1981	1,783,461	1,905,607	3,689,068
1981	25,378,108	1982	1,713,271	2,057,006	3,770,277
1982	22,442,833	1983	1,561,778	1,982,895	3,544,673
1983	20,875,960	1984	1,591,852	2,107,723	3,699,575
1984	17,030,758	1985	1,446,983	1,879,307	3,326,290
1985	14,092,882	1986	1,289,693	1,746,880	3,036,573
1986	11,058,467	1987	1,131,162	1,494,979	2,626,141
1987	8,608,800	1988	915,475	1,456,794	2,372,269
1988	5,771,300	1989	363,721	878,456	1,242,177
1989	5,808,900	1990			

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 first day of October. The date of this hearing was changed to May 21, 1990 to conform with the new tax laws. 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. In addition, current conditions and future trends in the iron ore industry are discussed.

Iron ore ad valorem taxes are expected to continue their long decline with a substantial drop occurring in two to three years when the Donora orebody is exhausted. The small increase in value for 1989 is expected to be a one-time occurrence which was due primarily to lower costs at LTV's Donora operations.

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 M. S. 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 interests taxed under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

Ownership of a specific mineral or group of minerals (such as energy minerals or precious metals)rather than an actual fractional interest of all the minerals does not constitute a "fractional interest". Thus, if one individual reserved all minerals except gas, oil and hydrocarbons, and a second entity reserved the hydrocarbons, each owner would be subject to the full $.25/acre tax.

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed 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 conditions of several mineral interests in this state," Minn. Stat. S93.52. Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state, Minn. Stat. S93.55. In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirements,and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc. U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The 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 have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete, and giving title to the state. In 1988, the Legislature amended the law to allow the Commissioner of Natural Resources to lease unregistered severed mineral interests before entry of the court order determining the forfeiture to be complete. However, mining may not commence under such a lease until the court determines that the forfeiture is complete.

In a 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 1982 - 1989:

Fiscal Year Ending 6/30	Total Collections of Affected Counties	Payment to Indian Business Loan Account
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
1987	373,320	74,664
1988	503,940	100,788
1989	410,854	82,171

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 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		Current Laws
Yes. 14.5% Less Credits	Occupation Tax	Yes. 9.5% same as Corporate Income Tax (M.S. 298.01)
No	Corporate Income Tax	No
Yes	Ad Valorem Tax (On Value of Ore Reserves)	Repealed
Yes	Ad Valorem Tax (Smelter & Plant Facilities)	Yes (M.S. 273.12)
Yes	Severed Mineral Interest	Yes (M.S. 273.13)
Yes	Royalty Tax	Repealed after 1989
No	Production Tax	No
Yes	Sales & Use Tax	Yes (M.S. 297A)
No	Net Proceeds Tax	Yes (2%) (M.S. 298.015)

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 shall be computed in accordance with 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 .1% (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 the allocation formula. For more information on the Alternative Minimum Tax, refer to M.S. 290.092, Subdivision 4 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 (M.S. 273.12 1987 c 268 art. 9 s 7). 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 1989, 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.

The 1988 legislature enacted a comprehensive property tax reform beginning with taxes payable in 1989. Each classification of property will have a tax capacity based on its market value times tax capacity percentage. The number of classifications of property was reduced. The new property tax formula will tend to reduce property taxes in previously high mill rate areas. Most of the relief will go to non-homestead, commercial, and industrial property which was often highly taxed under the previous formula. Many of the rural counties with mineral exploration potential are high mill rate areas which will receive substantial property tax relief.

For commercial and industrial property, the assessor's estimated market value is multiplied by 5.25 percent to obtain gross tax capacity (The first $100,000 of value is at 3.3 percent). This is then multiplied by the tax extension rate to calculate tax payable. In St. Louis County, where the majority of Minnesota's mining industry is located, the tax extension rates varied from a low of about .9 to a high of approximately 1.43. For more detailed information on assessment of auxiliary mining lands, refer to the section in the guide on "Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations".

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

ROYALTY TAX

The Royalty Tax on other minerals has been repealed. Beginning 1-1-90, it is required 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. See section on Income Tax Withholding on Mining and Exploration Royalty for further information.

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. Explosives, a major expense for mining, are exempt under the chemical classification. 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 Division.

NET PROCEEDS TAX

A tax equal to two percent of the net proceeds from mining in Minnesota applies to all mineral and energy resources except sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension stone, horticultural peat, soil, iron ore, and taconite. Net proceeds are the gross proceeds from mining less allowable deductions. The net proceeds tax is effective for taxable years after December 31, 1986, and is due on June 15 of the year succeeding the calendar year of the report.

A sample form and calculation based on estimated production costs is included on the next page. Additional information is available from the Minerals Tax Division.

Gross Proceeds

1) If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale.

2) If the minerals are used by the taxpayer or disposed of in a non-arms-length transaction, such as shipments to a wholly-owned smelter or transactions between affiliated companies, the gross proceeds are determined as follows:

   a) Prices are determined using the average annual price in the Engineering and Mining Journal. If there is no average annual price for the mineral, then an arithmetic average of the monthly or weekly prices published in the Engineering and Mining Journal is used. For minerals not listed in the Engineering and Mining Journal, another recognized published price as determined by the Commissioner of Revenue will be used; and

   b) the price as determined above is multiplied by the amount of the mineral credited or paid for by the smelter. Any special smelter charges included in this price are deducted. The resulting amounts are the gross proceeds for tax calculation.

Net Proceeds

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as a deduction.

Unallowable Deductions Include:

-- Sales, marketing, and interest expense.
-- Insurance and tax expense, except as specifically allowed.
-- Administrative expense outside of Minnesota.
-- Research expense prior to production.
-- Reclamation expense incurred after production ends.
-- Royalty expense, depletion allowances, and the cost of mining land.

Allowable Deductions

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

-- Labor, including wages, salaries, fringe benefits, unemployment and workers' compensation insurance.
-- Operating equipment and supplies, including sales and use tax paid. Cost of machinery, equipment, and supplies of a capital nature is deductible as depreciation expense only.
-- Depreciation expense as defined by Section 167 of the Internal Revenue Code.
-- Transportation of the minerals if the expense is included in the sales price.
-- Administrative expense inside Minnesota.
-- Exploration, research, or development expense within Minnesota paid in a production year are deductible in that year.
-- Exploration and development expense in Minnesota incurred prior to production must be capitalized and deducted on a straight-line basis over the first five years of production.

The carryback or carryforward of deductions is not allowed.

Distribution

The net proceeds tax on minerals and energy resources mined or within the taconite tax relief area will be distributed according to the formula provided by M.S. 298.018. Tax paid on minerals and energy resources mined outside of the taconite tax relief area will be deposited in the general fund. Distribution of proceeds will occur on July 15 of each year.

Example

MINNESOTA NET PROCEEDS TAX REPORT

ON MINING OPERATIONS OF ABC Mine

FOR THE CALENDAR YEAR 1988

REPORT ITEM		
1. CRUDE TONS PRODUCED (to Mill)	250,000 Tons	
2. GROSS PROCEEDS		$ 22,500,000
ALLOWABLE DEDUCTIONS:		
3. BENEFICIATION COST		
A. Labor	$ 1,200,000	
B. Supplies	$ 1,200,000	
C. Plant Depreciation	$ 900,000	
D. Miscellaneous	$ 150,000	
4. DEVELOPMENT	$ 2,000,000	
5. MINING COST		
A. Labor	$ 6,750,000	
B. Supplies	$ 2,500,000	
C. Depreciation on Mine Plant & Equipment	$ 600,000	
6. ADMINISTRATIVE EXPENSE	$ 500,000	
7. MISCELLANEOUS	$ 250,000	
8. SMELTING	$ 600,000	
TOTAL DEDUCTIONS:		$ 16,650,000
NET PROCEEDS:		5,850,000
TIMES 2%:		2%
TAX DUE:		$ 117,000

Note: Example based on a 1,000 tons per day underground mine using cut and fill stopping with a 2,000-foot production shaft. Costs are estimated using Model Number U9 and other information from MINING COST SERVICE published by Western Mine Engineering.

TABLE 20 -- 1990 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. 8 -- Taconite Production Tax determinations mailed to companies. 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 -- Occupation Tax Report due from companies. 15 -- Taconite Production Tax final 10 percent tax figure with adjustments mailed to companies.	1 -- Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for Unmined Taconite Tax. 15 -- Final Taconite Production payment due in the county offices. -- Form MW-5 and payment of Income Tax withheld from first quarter Royalty paid is due. Due date dependent upon amount due. 30 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.
MAY	JUNE	JULY	AUGUST
1 -- Tentative Determination for Occupation Tax mailed. 15 -- If a disagreement exists, a formal written protest must be filed. 15 -- Formal hearing held, if necessary. 15 -- Final Taconite Production Tax aid payments made to taxing districts by the counties. 15 -- Final taconite production tax payments made by counties (between April 15 and May 15). 15 -- Ad Valorem Tax Reports due from mining companies. 15 -- First half property tax on taconite railroad property due to counties.	1 -- Final Occupation Tax Determination mailed to companies. 14 -- Full Occupation Tax payment due. 30 -- Recertification of Royalty Tax paid mailed to mining companies. -- Form MW-5 and payment of Income Tax withheld from second quarter Royalty paid is due. Due date dependent upon amount due. 31 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.	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
15 -- Ad Valorem Tax present worth estimates 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 on first business day after October 10. 15 -- Second half property tax on taconite railroad property due to counties. 31 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due. -- Form MW-5 and payment of Income Tax withheld from third quarter Royalty paid is due. Due date dependent upon amount due.	1 -- Ad Valorem Tax final adjustments to property equalization sheets mailed to county assessors.	1 -- Minerals 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. FINAL YEAR.

INDEX MAP - MINNESOTA MESABI MAP SET

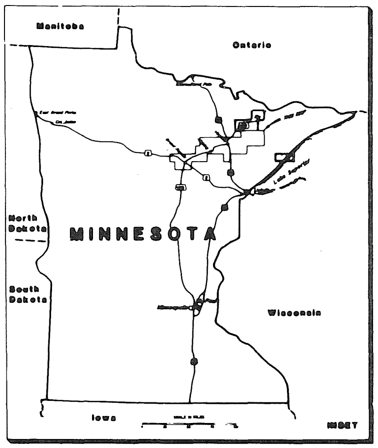
This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set completed in 1989. An additional 9 quadrangles will be available in mid 1990.

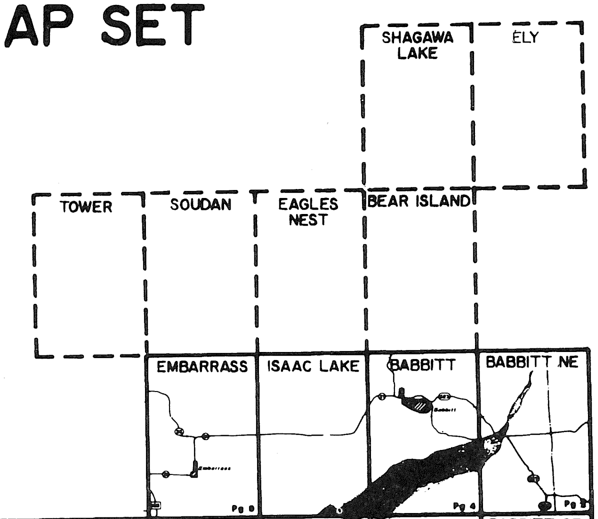
These maps show the status of the taconite mining industry, as well as major highways, railroads, power lines, pipelines, recreation areas, municipal and school district boundaries.

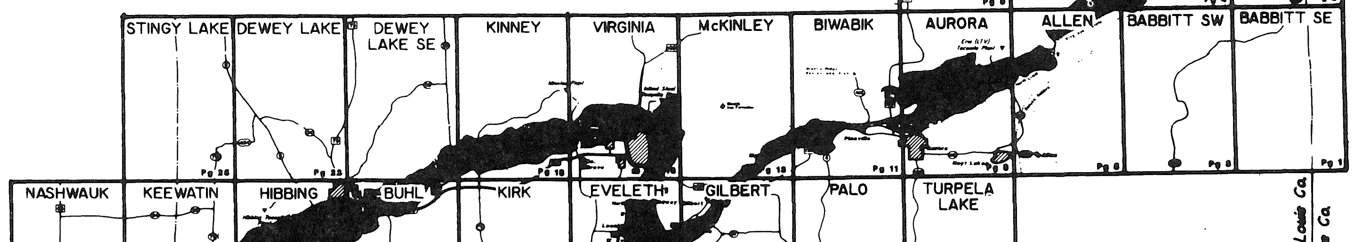
A free sample map is available upon request.

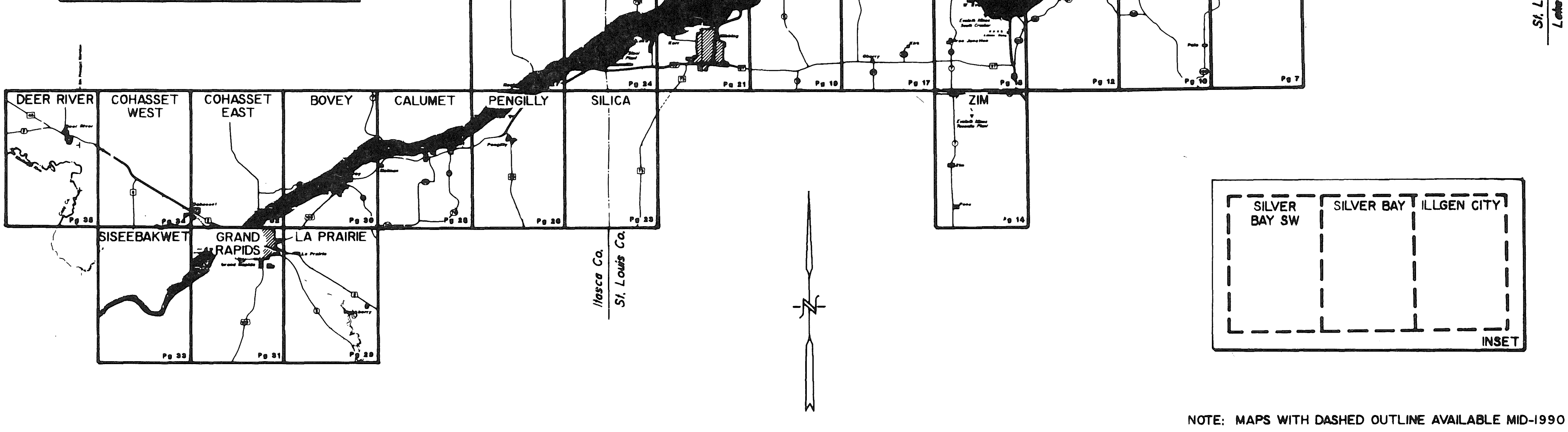
The full atlas with a cover is available for $150 plus sales tax where applicable. Individual maps are priced at $3 plus tax.

Orders can be placed with the Minerals Tax Office. The address and telephone number are on the inside of the back cover.









NOTE: MAPS WITH DASHED OUTLINE AVAILABLE MID-1990

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