MINNESOTA

MINING TAX GUIDE

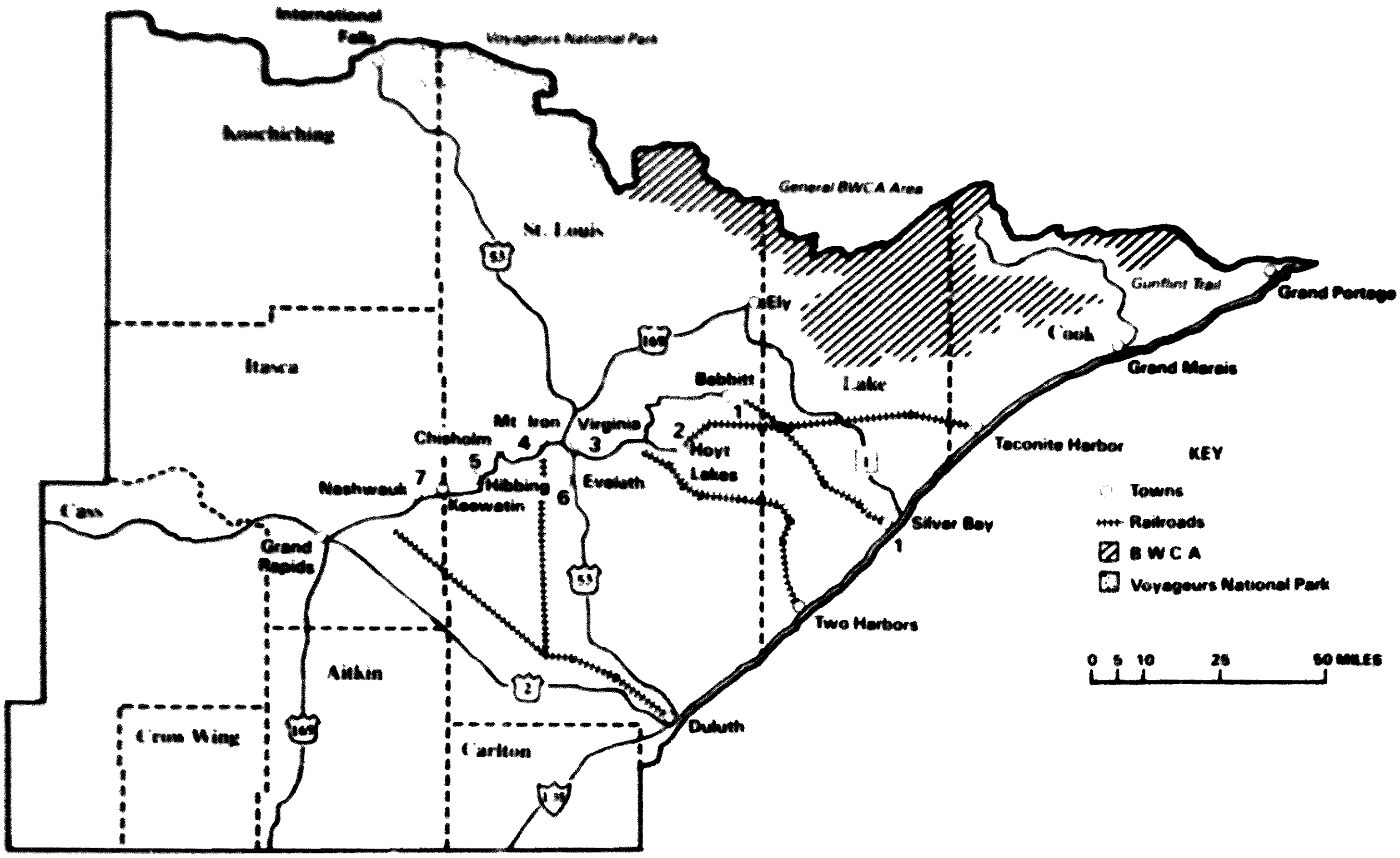
DONORA MINE

MINNESOTA
DEPARTMENT OF REVENUE
Minerals Tax Office

October 1991

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity* (million tons)
1) **CYPRUS NORTHSHORE MINING CORP.** Owner: Cyprus Mineral Company (100%)	4.0
2) **LTV STEEL MINING COMPANY**[a] Cliffs Mining Company, 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%)	15.0
5) **HIBBING TACONITE COMPANY** Cliffs Mining Company, Managing Agent Owners: Bethlehem Steel Company (70.3%) Pickands Mather & Company (15%) The Steel Company of Canada, Ltd. (14.7%)	8.5
6) **EVELETH MINES** Oglebay Norton Company, Managing Agent Owners: Rouge Steel Company (41.7%) Oglebay Norton Company (14.5%) Virginia Horn Taconite (Armco) (33.1%) Ontario Eveleth Company (Stelco) (10.7%)	5.4
7) **NATIONAL STEEL PELLET COMPANY** Owner: National Steel Corporation (100%) National Steel Ownership: National Intergroup (30%) Nippon Kokan KK (70%)	4.7
TOTAL EFFECTIVE CAPACITY:	48.1

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

* Effective capacity is the annual production capacity in natural long tons (including flux) that can be sustained under normal operating conditions.

ABOUT THE COVER

DONORA MINE

The picture on the front cover is a scene of the last operating natural ore mine with a washing plant in Minnesota. The 1991 Minnesota Mining Tax Guide front cover features the McKinley Extension (originally the Donora ore body) to commemorate the passing of an era in Minnesota. Mining will cease at this mine in 1991. However, the ore will be stockpiled, washed, and blended with ore from the Connie Mine to allow shipments of ore to continue through the 1993 shipping season. Mining will continue at the Connie Mine until the fall of 1992. The Connie is a small operation with no plant and only a few people involved. About 100,000 tons per year of Connie ore will be blended with Donora ore for 1991 and 1992. When it ceases operation at the end of 1992, that will mark the last natural ore mining.

The Donora ore body was discovered in the early 1900's and owned in "fee" by the United States Steel Company. U. S. Steel operated the mine intermittently between 1975 and 1979, with shipments totaling 1,580,938 tons (see below).

Jones & Laughlin Steel Corporation (now owned by LTV) signed an agreement to lease the property from U.S. Steel effective July 1, 1982. J & L closed the McKinley beneficiating plant on August 31, 1982. Premier Aggregates of Virginia, Minnesota was awarded the contract to dismantle the plant, move it to the Donora Mine site and reassemble the plant. The Donora Mine, the Stephens Mine and the plant were renamed the McKinley Extension.

As the shipment history listed below shows, J & L - LTV operated the mine beginning in 1983 and current plans call for stockpile shipments to be completed in 1993. Unless something positive develops during the next year or two, this will be the last natural ore shipped from Minnesota. Several marginal reserves of natural ore do have some potential for future mining.

Donora Mine Shipment History

	U.S.S. & PITTSBURGH PACIFIC CO.		J & L/ LTV STEEL
1975	1,262,469	1983	850,707
1976	10,478	1984	695,101
1977	29,442	1985	928,324
1978	17,472	1986	852,869
1979	261,077	1987	1,138,635
	1,580,938	1988	743,116
		1989	602,811
		1990	460,015
		1991 est.	450,000 Mining ends
		1992 est.	450,000 Stockpiled crude
		1993 est.	Shipments only/no production
			7,171,578

Historical data for the Donora is from the October 8, 1983 Skillings Mining Review and the Minnesota Mining Directory.

SPLIT ROCK LIGHTHOUSE

In the early years of the twentieth century, when iron ore shipments on Lake Superior doubled and redoubled and U. S. Steel's bulk ore carriers became "the greatest exclusive freight-carrying fleet sailing under one ownership in the world", the demand for a new lighthouse on the lake's inhospitable North Shore was hardly surprising. A single storm on November 29, 1905, endangered 29 ships, fully a third of which were the uninsured property of the U. S. Steel fleet. Two of these carriers foundered on this rocky coastline, which had already been dubbed "the most dangerous piece of water in the world". A delegation led by the steamship company president descended upon Washington, D.C. and in early 1907, Congress appropriated $75,000 for a lighthouse and fog signal in the vicinity of Split Rock.

In the spring of 1910, the octagonal brick tower rose rapidly to completion. By the end of construction, begun in 1909, 310 tons of building materials had been lifted by a steam-driven derrick up the 100-foot cliff face from boats moored below.

On the eve of August 1, 1910, the incandescent oil vapor lamp was lit and the bivalve lens set in motion for the first time. Nearly 6-1/2 tons of precision equipment had traveled from Paris, France, to be assembled prism by prism in the lantern room. The beacon was 168 feet above the mean water level. For nearly sixty years, the light flashed each night at ten-second intervals across more than twenty miles of Lake Superior's navigable waters.

The two-toned moan of the fog siren accompanied the beacon in guiding navigation along the North Shore of Lake Superior. At the first sign of fog, smoke, snow, or whenever a passing ship warned of poor visibility, the twin roof horns would sound two seconds out of every twenty. The signal helped prevent serious disaster in the vicinity for more than half a century.

The U. S. Lighthouse Service operated the lighthouse until 1939, when the U.S. Coast Guard took over. By that time, Split Rock's picturesque setting on the North Shore highway built in 1924 had made it "probably the most visited lighthouse in the United States". The station closed in 1969, when modern navigational equipment made it obsolete. The scenic landmark was deeded to the State of Minnesota in 1971. The Minnesota Historical Society now administers the 25-acre historic site and is restoring it to its pre-1924 appearance, a time when the isolated light station was accessible only by water.

Special thanks to Lee Radzak, manager of the Split Rock Lighthouse historic site for the information and the illustration on page 31. The picture on the front cover was taken by Bob Wagstrom; the picture on the back cover was taken by Sandy Gorrill, both of the Minerals Tax Office.

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Nineteen hundred ninety was the best year for the production of taconite pellets since 1981. Unfortunately, the projections for 1991 are not so favorable. The nationwide recession considerably reduced the demand for steel. The taconite industry was insulated somewhat from a major reduction in production due to the low levels of pellet inventories at the steel plants.

The Legislative Commission on Minerals did not have any recommendations for the 1991 legislature to consider.

TAX COMMISSION

The Governor's Blue Ribbon Commission on Mining Taxation commenced in late 1989 and adjourned in late 1990. In January, 1991, the commission presented its "Final Report and Recommendations" authored by the chairman, former Commissioner of Revenue John James.

The tax commission had a number of recommendations for the legislature. However, the extremely heavy legislative schedule due to the projected budget deficit caused most recommendations to be held over to the 1992 session.

The only legislation recommended by the commission and passed by the 1991 legislature was a property tax bill. This bill specifically stated that "mine shafts, tunnels, and other underground supporting structures used in mining ARE NOT real property". This legislation put into statute the Department's position that these structures are not subject to the tax on real property.

Other items recommended by the tax commission but either not submitted to the 1991 legislature or not passed by the 1991 legislature were:

- Extend the sales tax taconite "liner" exemption to other agricultural and industrial production, but restrict the exemption to items having a useful life of less than 12 months.
- Eliminate the local property tax for the prior six years on newly discovered ore.
- Eliminate the requirement to multiply the present worth of a natural ore by three times for local property tax purposes.
- Change the taconite weight used for production tax from a natural weight to a dry weight. This was done administratively by the Department of Revenue, beginning with the 1990 taconite production tax reports.

A number of other issues relating to the production tax rate and escalator were considered by the commission.

The commission recommended that the Range delegation consider providing some type of incentive rate--lower than the basic rate--for production in excess of a set level. Such an incentive rate could be either on an industry-wide basis or a company-by-company basis.

The chair of the commission recommended that the Range delegation change the taconite production tax escalation index to the Steel Mill Products Index and apply it every third year.

The commission also considered a proposal that the Range delegation study the possibility of changing the production tax assessment to a tax on the current years production only. This would require a change in the distribution from its present method to one using reserve funds to provide the current stability.

TACONITE INDUSTRY AVERAGES

	1979	1983	1987	1989	1990
Lake Erie Value:	$42.21	$56.49	$37.46		
Mine Value:			24.27	$24.42	$27.444
Beneficiation Costs:	16.64	26.81	15.77	15.89	16.543
Mining Costs (incl. tax):	4.31	5.32	4.96	5.99	6.441
Production Tons (millions):	55,333	25,173	32,109	39,882	43,176
Employment (thousands):*	13,038	5,774	4,742	5,577	6,294

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.

* From the annual report of the St. Louis County Inspector of Mines.

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.

MINNESOTA TAXPAYER RIGHTS

ASSISTANCE AND SUPPORT

Every employee in the Department of Revenue shares responsibility for upholding your rights. Further, we must be prompt and courteous while giving you concise, understandable information.

To do so, we must provide you with understandable written documents, tax forms and instructions, and we must serve your needs through our taxpayer information and assistance programs.

IF YOU'VE BEEN AUDITED

If you agree with the information on your notice, you must pay the full amount of tax, penalty and interest due within 60 days of the notice date. Otherwise, you will also owe a late payment penalty and additional interest.

If you are entitled to a refund, we will notify you and issue you a check. However, we are required to reduce your refund by:

- any other Minnesota taxes you owe
- any debts you owe another state or county agency

APPEAL PROCEDURE

If you disagree with your notice, you have 60 days from the notice date to appeal informally to the Department of Revenue or formally to the Minnesota Tax Court. If you decide to appeal to the department but you need more time to prepare your appeal, you may request a 30-day extension by writing to us at the address listed on your notice.

If you want an informal conference with a representative of the Department of Revenue, make this request in your appeal. You will be notified of the time and place of the conference with the appeals sections.

To appeal informally to the Department of Revenue, write to:

Minnesota Department of Revenue
Appeals and Legal Services
10 River Park Plaza
Mail Station 2220
St. Paul, MN 55146-2220
Attention: Appeals Unit

Please send copies of your appeal to the Minerals Tax Office.

Include in your appeal letter a copy of your tax due notice, and:

- your name, address and Minnesota tax identification number;
- your state of incorporation if you are part of a corporation;
- the type of tax, tax years or periods, and the amount in question for each period;
- the items on the notice with which you disagree;
- a summary of the facts or law you're basing your appeal on;
- the date of your appeal, and
- the signature of the person who prepared your appeal.

Include this, plus any information or documentation to support your appeal, and mail it to the appeals unit.

If you appeal informally to the department and your appeal is denied in whole or in part, you will have an additional 60 days to appeal that denial to the tax court. During the time of your informal or formal appeal, interest will accumulate on any unpaid balance due.

TAX COURT PROCEDURE

If you decide to appeal to the tax court, you may choose to have your case heard in the Regular Division; or, if the total tax, penalty and interest in dispute does not exceed $5,000, you may choose to appeal to the less formal Small Claims Division. All decisions in the Small Claims Division are final; neither you nor the department may appeal the decision. Forms for filing your appeal are available from the Minnesota Tax Court, second floor, 520 Lafayette Road, St. Paul, MN 55155, or at the office of the Clerk of District Court in your county. You will need to submit a copy of your notice when filing your appeal with the tax court.

TAXPAYERS' RIGHTS ADVOCATE

If you have any questions or concerns about your rights as a taxpayer, please contact the Department of Revenue Taxpayers' Rights Advocate, Jill Ruzicka at (612) 296-0992 or write to:

Minnesota Department of Revenue
Taxpayers' Rights Advocate
10 River Park Plaza
Mail Station 4000
St. Paul, MN 55146-4000

TABLE 1

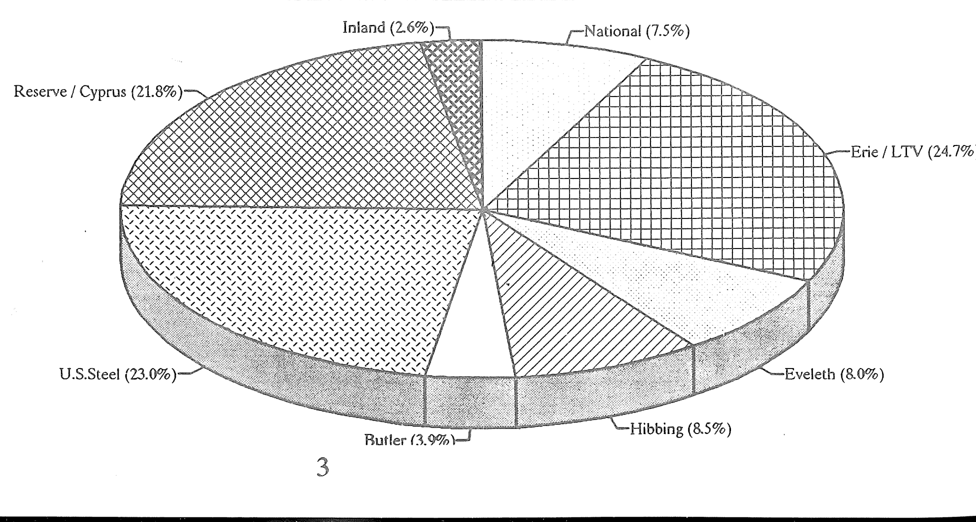
HISTORY OF MINNESOTA TACONITE PRODUCTION
(From Taconite Production Tax Reports)

	Butler	Erie*	Eveleth	Hibbing	Inland	National	Reserve	U. S. Steel	Total
1949	---	45,290	---	---	---	---	---	---	45,290
1950	---	129,666	---	---	---	---	---	---	129,666
1951	---	99,977	---	---	---	---	---	---	99,977
1952	---	101,325	---	---	---	---	13,071	---	114,396
1953	---	228,499	---	---	---	---	257,435	133,504	619,438
1954	---	180,669	---	---	---	---	316,628	413,059	910,356
1955	---	195,979	---	---	---	---	521,200	623,491	1,340,670
1956	---	211,698	---	---	---	---	4,238,729	618,452	5,068,879
1957	---	487,303	---	---	---	---	5,558,262	766,739	6,812,304
1958	---	2,953,993	---	---	---	---	4,837,258	747,033	8,538,284
1959	---	4,109,000	---	---	---	---	3,763,189	542,106	8,414,295
1960	---	7,144,214	---	---	---	---	5,446,342	799,365	13,389,921
1961	---	6,772,654	---	---	---	---	5,652,522	761,913	13,187,089
1962	---	7,593,349	---	---	---	---	6,153,812	771,890	14,519,051
1963	---	7,852,473	---	---	---	---	8,044,362	798,405	16,695,240
1964	303	8,009,243	---	---	---	---	9,667,975	827,713	18,505,234
1965	10,700	8,039,657	52,826	---	---	---	10,023,520	877,459	19,004,162
1966	70	8,551,944	1,536,370	---	---	---	10,829,799	758,544	21,676,727
1967	1,617,409	9,900,479	1,738,068	---	---	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	10,718,707	1,800,124	---	---	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	10,198,586	1,916,899	---	---	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	10,743,031	1,986,000	---	---	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	10,192,628	2,055,131	---	---	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	9,972,068	2,141,233	---	---	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	11,657,631	2,065,042	---	---	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	10,897,352	2,171,678	---	---	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	10,884,511	2,164,677	---	---	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	10,778,287	2,291,714	303,419	---	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	4,646,451	2,572,909	2,150,170	232,457	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	7,424,801	4,924,732	5,408,928	1,925,378	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	8,820,258	5,604,688	6,250,348	2,238,443	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,679,043	5,778,256	6,800,202	1,407,598	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	7,943,641	5,879,859	7,125,897	2,385,967	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	3,963,897	4,611,260	5,703,410	1,792,702	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	2,045,065	3,265,821	4,205,470	2,136,155	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	4,696,117	3,932,117	6,075,049	2,032,164	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	4,862,497	2,943,613	5,059,291	1,821,941	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	4,232,962	3,455,690	4,881,987	1,807,451	4,021,372	1,433,898	5,617,695	25,451,055
1987	---	6,774,330	3,481,280**	7,685,375	2,118,660**	4,314,534	Closed	7,668,870	32,043,049
1988	---	7,888,582	4,238,636**	8,653,270	2,247,840**	4,607,944	---	11,848,960**	39,485,232
1989	---	7,372,667	4,910,384**	8,186,626	2,269,177**	4,745,024	CYPRUS	11,846,319**	39,330,197
1990	---	7,798,292	4,417,255**	8,136,923	2,265,876**	4,809,930	2,384,061	12,709,299**	42,521,636
	40,125,707	252,798,816	81,936,262	86,626,365	26,681,809	76,988,967	223,131,673	234,853,951	1,023,143,550

* Erie Mining Company was renamed LTV Steel Mining Company in 1987.

** Less any flux added

TACONITE PRODUCTION 1949 - 1990
(Company Percentages of Total)



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 2
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	6.1
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	39,933	1.5	98.5	5.7
1990	42,938	1.0	99.0	6.4
1991 Est.	37,000	1.0	99.0	6.3

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 3
MINNESOTA'S SHARE OF U. S. AND WORLD PRODUCTION OF IRON ORE

Year	Minnesota Production Tons (000's)	U.S. Production Tons (000's)	Minnesota % U.S.	World Production Tons (000,000's)	Minnesota % World
1955	67,893	103,003	65.9	363	18.7
1960	57,425	88,784	64.7	514	11.2
1965	52,466	87,439	60.0	611	8.6
1970	56,520	89,760	63.0	757	7.5
1975	51,036	78,866	64.8	888	5.8
1980	45,281	69,613	65.0	877	5.2
1981	51,033	73,174	69.7	845	6.0
1982	24,234	35,433	68.4	769	3.2
1983	26,024	37,562	69.3	728	3.6
1984	36,538	51,269	71.3	816	4.5*
1985	34,730	48,751	71.2	847*	4.1*
1986	26,573	38,862	68.4	852*	3.1*
1987	33,182	46,816*	70.9	875*	3.8*
1988	40,198	56,606*	71.0	891*	4.5*
1989	39,933	58,049*	69.1	907*	4.3*
1990	42,522	53,048	80.2	914*	4.6

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

Source of Information - 1) County Mine Inspection Reports (Table 1)
2) Minnesota Production Tax (taconite) and Occupation Tax (natural ore) Reports
3) American Iron Ore Association (p. 69-71)

TABLE 4

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

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

TAX	1982	1984	1985	1986	1987	1988	1989	1990	1991 Est.
Ad Valorem - Unmined Natural Ore									
- (Year Assessed)	$ 3,545	$ 3,326	$ 3,037	$ 2,626	$ 2,372	$ 1,242	$ 874	$ 644	$ 550
Occupation - Taconite	3,348	29,915	9,907	6,234	5,356	2,993	350	2,057	3,000
- Natural Ore	719	442	394	343	789	294	145	11	25
Taconite Production	80,305	64,514	65,092	48,658	51,184	57,402	72,149	78,930	80,400
School Bonds	176	775	782	699	673	720	862	980	972
Railroad Gross Earnings - Taconite	1,354	1,678	1,985	1,671	1,405	1,397	N/A	N/A	N/A
Royalty - Taconite	4,093	4,564	3,576	2,436	1,959	2,540	2,646	N/A	N/A
- Natural Ore	619	536	454	208	352	179	244	N/A	N/A
Unmined Taconite (Year Assessed)	285	321	397	385	393	365	355	353	350
Sales & Use (Taconite Only)	7,828	7,110	6,477	4,890	5,287	8,352	11,113	13,127	12,000
TOTAL: (Taconite Only)	$ 97,389	$ 108,879	$ 88,216	$ 64,973	$ 66,257	$ 73,769	$ 87,474	$ 95,447	$ 96,722
TONS PRODUCED: (Taconite)	23,445	35,689	33,265	25,451	32,109	39,485*	39,375*	42,522*	37,000*
TOTAL TAXES PAID ON PER TON BASE: (Taconite)	4.15	3.05	2.65	2.55	2.06	1.87	2.22	2.24	2.61

* Tons are without flux additive. Beginning in 1990, production tons are also reported dry.
Shaded portions are taconite taxes only.

NOTE: Numbers may not add up due to rounding.

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 increased in 1989 due to higher three-year average production and the effects of an escalator which applies to the production tax.

STATE TAXES LEVIED ON TACONITE
(1975 - 1991)

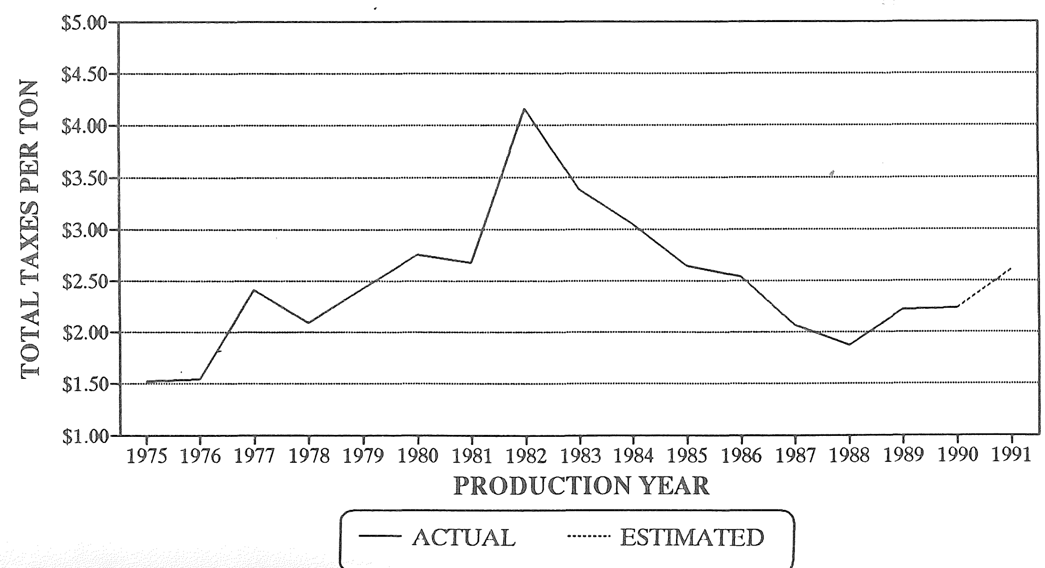


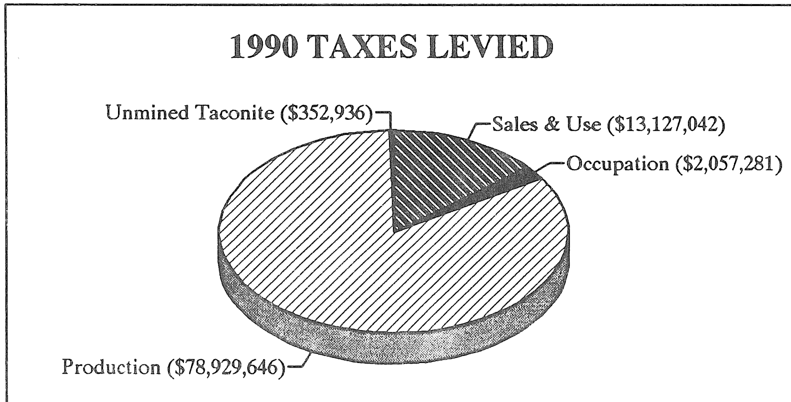
TABLE 5
MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

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	355,065	11,112,722	72,149,188	349,691	2,645,527	862,122	**	87,474,315	39,375,431	2.22
1990	352,936	13,127,042	78,929,646	2,057,281	*	980,368	**	95,447,273	42,521,636a)	2.24
1991 Est.	350,000	12,000,000	80,400,000	3,000,000	*	972,000	**	96,722,000	37,000,000a)	2.61

* Repealed effective after December 31, 1989.

** Repealed effective after December 31, 1988.

a) Tons are without flux additive. Beginning in 1990, production tons are also reported dry.



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 on pages 36 and 37).

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 was $1.975 per taxable ton. The 1989 tax rate was 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 rate was frozen at $1.975 for the 1990 production year. For production year 1991, the escalator was allowed to take effect and the rate is expected to be $2.054 per ton.

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 only change made by the 1991 legislature pertained to schools. The increased tax revenue due to escalation which occurs during 1992 and 1993 distributions (1991 and 1992 production years) would be allocated to a special higher education fund for the taconite tax relief area. Revenue from escalation occurring after the 1992 production year is allocated to the Environmental, Economic, I.R.R.R.B., Property Tax Relief, and Taconite Referendum Funds. However, this legislation was vetoed by the governor and the legality of this particular veto has not been challenged. As of this writing, the legislation is considered void. Several of the governor's other vetoes were challenged and ruled invalid by a lower court for failing to comply with a three-day return provision in the constitution.

FLUX PELLETS

Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. All of the companies have experimented with flux pellets. Two companies, Inland Steel and USX, are producing fluxed pellets. Cyprus and Eveleth Mines are 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 dry 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. Beginning with 1988, a flux credit was allowed against production tax.

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the weight of the flux is shown on Table 18.

PELLET WEIGHING

A survey of weighing procedures used has been completed. Dust and other environmental problems have been an increasing concern with all of the industry and the railroads. It also appears that fluxed pellets have increased problems with dust. There has been a need to increase dust control water sprays at various points in the pellet processing and shipping operations. Therefore, due to these environmental concerns and basic fairness, the Department of Revenue changed from natural weight to dry weight for tax reporting purposes. This change was effective beginning with the 1990 production year. The years 1989 and 1988 were still reported on a natural basis for three-year average purposes.

DEFINITION OF TACONITE TAX RELIEF AREA

One common prerequisite exists for all taconite aids and grants--that is the recipient must be within the geographic confines of the taconite tax relief area. A taconite tax relief area is defined by statute (M.S. 273.134) as follows:

"Tax relief area" means the geographic area contained within the boundaries of a school district which contains a municipality which meets the following qualifications:

(1) It is a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property and in which, as of the applicable assessment date, the assessed valuation of unmined iron ore is not more than 60 percent of the assessed valuation of all real property; or

(2) It is a municipality in which, on January 1, 1977 or the applicable assessment date, there is a taconite concentrating plant or where taconite is mined or quarried or where there is located an electric generating plant which qualifies as a taconite facility.

DISTRIBUTION OF THE TACONITE PRODUCTION TAX

The taconite mining companies make the production tax payments directly to six counties (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 1990 taconite production tax (payable 1991) are distributed by statute as follows (all figures are cents per taxable ton):

M.S. 298.28,		
Subd. 2 - Taconite Cities and Towns:		2.5
Subd. 3 - Taconite Municipal Aid Account:		12.3
Subd. 4 - School Districts -		
(b) Taconite schools (mining and/or concentrating in the district):	5.5	
(c) School districts that qualify for taconite homestead credit in proportion to their levies:	22.0	
Basic School District Total:		27.5
(d) Taconite Referendum Fund:	(formula amount)	
Subd. 5 - Counties -		
(b) Taconite Counties:	13.0*	
(c) (includes Electric Power Plant)		
(d) Taconite Counties Road/Bridge:	3.5*	
Counties Total:		16.5*
Subd. 6 - Taconite Property Tax Relief (includes .75-cents for Cook County and Cook County schools):		15.0**
Subd. 7 - I.R.R.R.B.:		3.0**
Subd. 8 - Range Assn. of Municipalities and Schools:		0.2
Subd. 9 - N.E. Minnesota Economic Protection Fund:		1.5**

* Beginning with the 1986 production year, the cents-per-ton distribution was frozen at an escalated rate of 20.5-cents for the county fund and 5.5-cents for the county road and bridge fund. However, the actual distribution may be larger due to M.S. 298.225.

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 26.8-cents, I.R.R.R.B. was 6.3-cents, and the N.E. Minnesota Economic Protection Fund was 2.7-cents. *The full amount distributed, including escalation, is listed in Table 8.*

DESCRIPTION OF FUNDS

Subd. 2 - Taconite Cities and Towns

A total of 2.5-cents-per-ton is allocated to cities and towns where taconite mining or processing occurs. Forty percent (1.0-cent-per-ton) of this fund goes to those cities and townships in which mining activity occurs. The remaining 60 percent (1.5-cents-per-ton) goes to those cities and townships in which the concentrating of the taconite occurs. (Note: This is done on a company-by-company basis).

If both mining and processing take place in a single taxing district, then the entire 2.5-cents is allocated there. If mining occurs in more than one city or town, then the revenue (1.0-cent-per-ton) is divided based on either a percentage of taconite reserves or a four-year average of production. Most taconite mines have mining in two or more taxing units.

If concentrating is split between two cities or towns, the revenue (1.5-cents/ton) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples of this are Cyprus (Babbitt and Silver Bay) and Eveleth Mines (Eveleth, Fayal, and McDavitt Township).

Subd. 3 - Taconite Municipal Aid Account

The Taconite Municipal Aid payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. This amount is then reduced according to the percentage aid guarantee provisions of M.S. 298.225. For example, if production levels mandate a 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.

Subd. 4(b) - 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.

Subd. 4(c) - 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 tax capacities.

Subd. 4(d) - Taconite Referendum Fund

Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The Taconite Referendum Fund pays the difference between the local levy and $175 per pupil unit. The payment is made on July 15 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 Protection Trust (one-third). Note: A district must $25 per pupil unit for outcome-based learning programs approved by the Commission of Education.

Subd. 5(a) - Counties

16.5-cents per taxable ton is allocated to taconite counties (subject to adjustment by M.S. 298.225) to be distributed under Subd. 5(b) through (d). This 16.5-cents was subject to escalation prior to 1986. By 1986, the 13-cent amount in Subd. 5(b) had increased to 20.5-cents and was frozen there. The 3.5-cent amount for county road and bridge covered in Subd. 5(d) had increased to 5.5-cents and was also frozen at that level. The amounts listed in (b) and (d) are the statutory amounts prior to escalation.

Subd. 5(b) - Taconite Counties

13-cents per taxable ton distributed to the county in which the taconite was mined or quarried or in which the concentrate is produced (split in same manner as taconite cities and towns), less any amount distributed in Subd. 5(c).

Subd. 5(c) - 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).

Subd. 5(d) - Taconite Counties Road and Bridge

Each county receives a portion of the aid in the same manner as Taconite Cities and Towns, to be deposited in the county road and bridge fund. The basic allocation is 3.5-cents per taxable tons subject to adjustment as per M.S. 298.225.

Subd. 6 - Taconite Property Tax Relief

A total of 15-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 to a maximum of $535.00 for taxes payable in 1991. 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 $480.00 for taxes payable in 1991. The taconite homestead credit cannot reduce the "effective tax rate" on each parcel of property below 95 percent of the "base year effective tax rate" multiplied by the ratio of the current year's local tax rate to the payable 1989 local tax rate. "Effective tax rate" is the net tax divided by the market value, and the "base year effective tax rate" is the payable 1988 effective tax rate on a property with an identical market value to that of the property receiving the credit in the current year. The amount of the taconite credit cannot be less than $10.00 per homestead. Any credit amount of less than $10.00 is increased to $10.00 or the amount of tax after any miscellaneous credits, whichever is less. The total amount of taconite property tax relief paid in each county and school district is listed in Table 7.

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.

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. Beginning with the 1989 production year (payable 1990), $55,000 per year for two years was appropriated from production tax revenues to the Department of Revenue for costs and expenses incurred in the administration of the taconite production tax (Chapter 335, Article 1, Section 19, Laws of Minnesota for 1989).

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

5. 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.

6. 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 12).

7. 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 Dept. of Revenue.

8. The 1990 legislature authorized additional school bonds for eight school districts. The districts and the amount of the bonds and school bond credits are summarized in Table 12.

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-cents 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-cents Taconite County Fund.
2. 3.5-cents Taconite County Road and Bridge Fund.

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

1. 22-cents School Fund.
2. 5.5-cents School District Fund.
3. Taconite Referendum Fund.
4. .5625-cents 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.

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1990 are listed in Table 7. Total amounts distributed as shown in Table 7 are determined by the formula described on page 9 and do not equal the total amount of production tax allocated for property tax relief shown in the tables as collections or payments into account.

The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. (NOTE: The $7,651,586 is split between the local municipalities, counties, and schools based upon the current local tax rate).

TABLE 6 - SUMMARY OF TACONITE PROPERTY TAX RELIEF BALANCES

Year Payable	Payments into Account*	Interest Earned**	Payments Out (by formula)	Balance December 31
1982	$19,317,000	N/A	$16,207,800	$11,709,536
1983	16,381,200	N/A	17,600,000	10,494,112
1984	13,261,800	N/A	19,109,000	4,183,498
1985	8,884,100	N/A	10,357,400	3,041,834
1986	9,398,900	$426,700	10,572,700	2,308,000
1987	9,122,400	449,800	10,971,500	908,700
1988	9,727,800	325,700	10,883,300	79,000
1989***	5,904,200	214,400	8,081,000	9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,518	500,000 Est.	7,863,366	5,851,229 Est.
1992 Est.	11,050,000			

* Listed under year payable, 1991 payments result from 1990 production.

** Managed by Dept. of Finance and no interest paid to fund prior to 1986. Other factors such as money returned by schools was not researched. St. Louis County began as fiscal agent in 1986.

*** A projected deficit of $1,892,536 was covered by a transfer from the N.E. Minnesota Economic Protection Trust Fund.

TABLE 7 - TACONITE PROPERTY TAX RELIEF PAYMENTS BY AREA

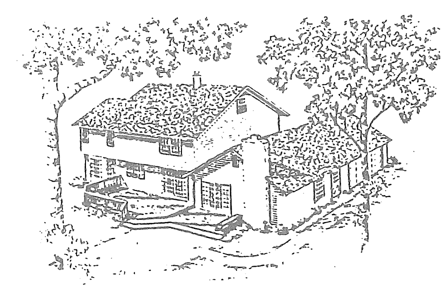
Total Listed by School District Area:

	Mobile Home	Real Property
001 - Aitkin	$ 2,993	$ 516,256
166 - Cook County	1,535	254,610
182 - Crosby/Ironton	4,367	558,339
316 - Coleraine	5,273	374,328
318 - Grand Rapids	15,204	1,486,705
319 - Nashwauk/Keewatin	1,277	185,296
381 - Lake Superior	2,747	709,469
691 - Aurora/Hoyt Lakes	1,442	312,024
692 - Babbitt	576	178,165
693 - Biwabik	378	100,095
695 - Chisholm	268	150,916
696 - Ely	962	182,895
697 - Eveleth	592	326,998
699 - Gilbert	1,115	91,398
701 - Hibbing	6,400	691,300
706 - Virginia	868	321,919
708 - Tower/Soudan	313	166,441
710 - St. Louis County	7,131	731,336
712 - Mt. Iron/Buhl	2,427	257,228
TOTAL (Payable 1990):	$55,868	$7,595,718

Total Listed by County Area:

	Mobile Home	Real Property	Grand Total
St. Louis	$22,442	$3,644,391	$3,666,833
Itasca	21,754	2,046,329	2,068,083
Lake	2,605	571,330	573,935
Crow Wing	4,474	581,557	586,031
Aitkin	2,886	493,038	495,924
Cook	1,535	254,610	256,145
Koochiching	172	4,463	4,635
Total (Payable 1990):	$55,868	$7,595,718	$7,651,586

Mobile homes are taxed differently than other real estate in that they are assessed and taxed in the same year.



INSTRUCTIONS FOR COMPUTING TACONITE HOMESTEAD CREDIT TAXES PAYABLE 1991

To determine the amount of the taconite homestead credit for a home located in a city or town in the taconite tax relief area:

1. Determine the tax on the homestead for the current year.
2. Multiply the amount in step 1 by 66%.
3. Compare the amount in step 2 to $266.80.
4. Select the amount in step 2 or step 3, whichever is less.
5. Subtract the amount in step 4 from the amount in step 1.
6. Determine the tax on the homestead in 1988 -- using the current year's market value.
7. Multiply the result in step 6 by .95 (95%).
8. Divide the current year tax rate by the tax rate in effect for payable 1989.
9. Multiply the result in 7 by the result in step 6.
10. Compare the result in step 5 with the result in step 9. If step 5 is greater than step 9, the amount of the taconite homestead credit is the result in step 4 above. If the result in step 5 is less than the result in step 9, subtract the result in step 9 from the result in step 1. This is the amount of the taconite homestead credit.

The formula for determining the amount of the credit for a home not located in a city or town in the tax relief area, but located in a school district in the tax relief area is the same as the formula above--with the following exceptions:

- In step 2, use 57% instead of 66%
- In step 3, use $241.50 instead of $266.80

66% Taconite Homestead Credit Example - Taxes Payable 1991

Gross Tax Computation		
1.	Market Value	$50,000.00
2.	Net Tax Capacity (1 x 1%)	$500.00
3.	Local Tax Rate	110%
4.	Gross Tax (2 x 3)	$550.00
Preliminary Credit and Net Tax Computation		
5.	Preliminary Taconite Credit (4 x 66%, Maximum $266.80)	$266.80
6.	Preliminary Net Tax (4 - 5)	$283.20
Limited Credit Computation		
7.	Pay '88 Assessed Value (1 x 17%)	$8,500.00
8.	Pay '88 Mill Rate	190 mills
9.	Pay '88 Gross Tax (7 x 8)	$1,615.00
10.	Pay '88 Homestead Credit (9 x 54%, Maximum $700)	$700.00
11.	Pay '88 Tax after Homestead Credit (9 - 10)	$915.00
12.	Pay '88 Taconite Credit*	$418.36
13.	Pay '88 Net Tax (11 - 12)	$496.64
14.	95% of Pay '88 Net Tax (13 x 95%)	$471.81
15.	Pay '89 Local Tax Rate	105%
16.	Pay '91/'89 Tax Rate Ratio (3 / 15)	1.0476
17.	Minimum 1991 Net Tax (14 x 16)	$494.27
18.	Limited 1991 Taconite Credit (4 - 17)	$55.73
Final Credit and Net Tax Computation		
19.	Final 1991 Taconite Credit (Lesser of 5 or 18)	$55.73
20.	Final 1991 Net Tax (4 - 19)	$494.27

*66% of the first $596 included on line 11 with a maximum credit of $246.10 plus 54% of line 11 over $596 with a maximum credit of $288.90. The total maximum credit is $535.

TABLE 8

1991 DISTRIBUTION (1990 PRODUCTION YEAR)
BASED ON 40,460,766 TAXABLE TONS
(CENTS-PER-TON)

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.4
Taconite Municipal Aid	17.3
School Districts	45.2*
County	26.2
County Road and Bridge	6.9
Taconite Property Tax Relief	25.8
I.R.R.R.B.	9.7
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	8.6
Taconite Environmental Protection Fund	36.3
N.E. Minnesota Economic Protection Fund	12.2
School Bond Credits and Payments	5.5
State of Minnesota	.1
	197.5

* 36.5-cents-per-ton will be subtracted from state 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.

1991 PRODUCTION TAX DISTRIBUTION
(Flowchart)

The production tax distributed in 1991 is the 1990 tax due. The taconite production tax rate for concentrates produced in 1990 was $1.975 per taxable ton, which was the same as the 1989 rate. The taxable tons for the 1990 production tax is the average tonnage produced in 1988, 1989, and 1990.

The flowchart on the following page attempts to provide a simple and easy to understand picture of where the production tax of $1.975 per taxable ton is distributed. This is a very complex subject with many legal requirements and provisions.

This flowchart shows both the cents-per-ton distribution, as indicated above, and the total amount distributed to various funds. These total amounts can also be found on the tables following the flowchart.

The various funds to which money is distributed are explained in the preceding several pages titled "Distribution of the Taconite Production Tax".

If you have any questions concerning this subject, please contact the Minerals Tax Division. The address and telephone number are listed on the inside back cover.

1991 TACONITE PRODUCTION TAX DISTRIBUTION FLOW CHART

TOTAL TACONITE PRODUCTION TAX

$79,910,014

Production Tax is $1.975 per taxable ton. The 3-year average taxable tons were 40,460,766.

Less:
School Bond Credits

$980,368
2.4-c.p.t.

NET PRODUCTION TAX TO BE DISTRIBUTED

$78,929,646

The remaining production tax to be distributed is $1.951 per taxable ton.

The cents-per-ton (c.p.t.) numbers (rounded) indicate the portion of the $1.975 tax paid PER TON distributed to that fund or group of funds.

The dollar amount in each box reflects the amount distributed to that fund or group of funds.

CITIES AND TOWNSHIPS
$8,746,232
21.6-c.p.t.

- City & Township Fund* — $1,357,960 — 3.3-c.p.t.
- Taconite Municipal Aid* — $6,797,130 — 16.8-c.p.t.
- Taconite Railroad — $591,142 — 1.5-c.p.t.
- School Bond Payments — $1,991,132 — 5.0-c.p.t.

SCHOOL DISTRICTS
$21,213,646
52.5-c.p.t.

- School District $.055 Fund* — $2,555,904** — 6.3-c.p.t.
- School $.22 Fund* — $9,899,052** — 24.5-c.p.t.
- Taconite Railroad — $1,785,380** — 4.4-c.p.t.
- Tac. Referendum (formerly School Fund Index)* — $4,982,178 — 12.3-c.p.t.

COUNTIES
$13,306,626
32.9-c.p.t.

- Regular County Fund* — $9,894,236 — 24.5-c.p.t.
- County Road & Bridge Fund* — $2,628,013 — 6.5-c.p.t.
- Taconite Railroad — $784,377 — 1.9-c.p.t.

MISC.
$11,012,048
27.2-c.p.t.

- Taconite Property Tax Relief — $10,848,818 — 26.8-c.p.t.
- R.A.M.S.* — $108,230 — .3-c.p.t.
- State of Minn. — $55,000 — .1-c.p.t.
- Guarantee Fund — M.S. 298.225 — M.S. 298.293

I.R.R.R.B.
$24,651,094
60.9-c.p.t.

- I.R.R.R.B. Fund* — $2,548,451 — 6.3-c.p.t.
- I.R.R.R.B. Fixed Fund — $1,252,520 — 3.1-c.p.t.
- Taconite Env. Prot. Fund — $15,352,862 — 37.9-c.p.t.
- Northeast Minn. Economic Prot. Fund — $5,497,261 — 13.6-c.p.t.

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

*Payments to the funds are guaranteed at a percentage level of the base year (1983) by M.S. 298.225 for local aids and M.S. 298.293 for property tax relief.

TABLE 9
HISTORICAL SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1985	1986	1987	1988	1989	1990
City & Township	$ 1,157,812	$ 1,005,214	$ 1,037,379	$ 1,134,857	$ 1,273,832	$1,357,960
Taconite Municipal	5,696,443	4,949,028	5,177,066	5,707,488	6,378,838	6,797,130
School District - Regular	2,836,169	2,019,239	1,920,580	2,112,938	2,403,521	2,555,904
School District Fund	10,651,894	7,610,880	7,412,485	8,177,023	9,302,169	9,899,052
Taconite Referendum Fund	4,000,678	4,021,355	4,027,123	4,085,759	5,003,608	4,982,178
County	10,194,573	8,474,378	8,702,769	9,087,474	9,684,687	9,894,236
County Road & Bridge	2,626,006	2,197,104	2,269,243	2,371,223	2,544,745	2,628,013
Taconite Prop. Tax Relief	9,398,881	9,122,405	9,727,842	5,904,193	9,566,917	10,848,818
State	-0-	-0-	-0-	-0-	55,000	55,000
I.R.R.R.B. ($.03 Indexed)	1,903,782	1,650,487	1,760,279	1,994,855	2,325,936	2,548,451
Range Association of Municipalities & Schools	92,271	80,115	82,680	90,451	101,530	108,230
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	919,667	1,751,132
Taconite Environmental Protection Fund	9,201,969	3,334,820	4,397,896	9,075,227	13,434,666	15,352,862
N.E. Minnesota Economic Protection Fund	2,677,890	(460,662)	15,365	2,237,226	4,500,653	5,497,261
TOTAL:	$65,091,787	$48,657,782	$51,184,126	$57,402,070	$72,149,188	$78,929,646

* The production tax is collected and distributed in the year following production, e.g., the 1990 production tax was collected and distributed during 1991.

( ) Indicates that production tax revenues allocated to the N.E. Minnesota Economic Protection Fund were not sufficient to cover the aid guarantee provisions of M.S. 298.225. Therefore, $460,662 was withdrawn from the principal of the fund.

TABLE 10

TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1991

(Based upon 1990 Production Year Tax Revenues)
(Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite* Railroad	Taconite Municipal Aid	Total
COOK COUNTY				
Schroeder Township	$ ---	$ 47,700	$ ---	$ 47,700
CROW WING COUNTY				
Crosby	---	---	124,995	124,995
Ironton	---	---	42,515	42,515
Riverton	---	---	2,934	2,934
Trommald	---	---	2,845	2,845
Irondale Township	---	---	12,783	12,783
Rabbit Lake Township	---	---	1,850	1,850
Wolford Township	---	---	---	---
ITASCA COUNTY				
Bovey	---	---	90,266	90,266
Calumet	---	---	46,021	46,021
Coleraine	---	---	117,444	117,444
Keewatin	20,739	---	135,671	156,410
Marble	---	---	78,229	78,229
Nashwauk	14,450	---	157,585	172,035
Taconite	---	---	38,462	38,462
Bass Brook Township	---	---	---	---
Grand Rapids Township	---	---	548	548
Greenway Township	18,401	---	36,425	54,826
Iron Range Township	---	---	14,595	14,595
Lone Pine Township	6,028	---	2,733	8,761
Nashwauk Township	27,904	---	29,944	57,848
LAKE COUNTY				
Silver Bay	105,982	152,706	226,618	485,306
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	2,762	---	178,837	181,599
Babbitt	97,626	166,767	174,515	438,908
Biwabik	---	---	108,199	108,199
Buhl	---	---	124,655	124,655
Chisholm	---	---	492,043	492,043
Ely	---	---	297,251	297,251
Eveleth	47,437	---	390,251	437,688
Franklin	4,228	---	298	4,526
Gilbert	---	---	193,800	193,800
Hibbing	312,523	---	1,378,165	1,690,688
Hoyt Lakes	195,547	152,153	266,132	613,832
Kinney	5,838	---	64,872**	70,710
Leonidas	3,311	---	13,005	16,316
McKinley	---	---	20,819	20,819
Mountain Iron	332,727	---	365,897	698,624
Virginia	20,387	---	1,030,422	1,050,809
Balkan Township	---	---	81,636	81,636
Bassett Township	---	11,745	---	11,745
Biwabik Township	---	---	40,914	40,914
Breitung Township	---	---	14,009	14,009
Eagle's Nest Township	---	---	3,301	3,301
Fayal Township	4,843	---	28,364	33,207
Great Scott Township	9,590	---	27,054	36,644
McDavitt Township	66,772	---	22,715	89,487
White Township	20,598	---	309,269**	329,867
Wuori Township	40,267	---	8,244	48,511
TOTALS:	$ 1,357,960	$ 591,142	$ 6,797,130	$ 8,746,232

* Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions.
** Includes amount from M.S. 298.28, Subd. 1, Clause (2)(b).

TABLE 11
TACONITE PRODUCTION TAX DISTRIBUTIONS TO SCHOOL DISTRICTS - 1991

(Does not include dollars from Taconite Property Tax Relief)

School Districts	$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001 - Aitkin	$ ---	$ 197,498	$ ---	$177,766	$ 375,264
166 - Cook County	68,397*	61,258	427,383	53,985	611,023
182 - Crosby-Ironton	---	296,548	---	199,721	496,269
316 - Coleraine	51,975	920,741	---	334,695	1,307,411
318 - Grand Rapids	---	714,210	---	510,831	1,225,041
319 - Nashwauk-Keewatin	138,176	354,500	---	164,478	657,154
381 - Lake Superior	131,218	717,698	552,774	444,197	1,845,887
691 - Aurora-Hoyt Lakes	353,976	640,632	345,802	291,828	1,632,238
692 - Babbitt	130,932	344,350	459,421	174,100	1,108,803
693 - Biwabik	36,767	225,936	---	100,370	363,073
695 - Chisholm	---	653,358	---	229,364	882,722
696 - Ely	---	275,656	---	173,315	448,971
697 - Eveleth	105,221	527,364	---	248,598	881,183
699 - Gilbert	---	335,069	---	120,002	455,071
701 - Hibbing	603,978	1,539,309	---	669,093	2,812,380
706 - Virginia	140,171	816,232	---	364,882	1,321,285
708 - Tower-Soudan	---	35,023	---	50,138	85,161
710 - St. Louis County	126,382	673,490	---	446,734	1,246,606
712 - Mt. Iron-Buhl	668,711	570,180	---	228,081	1,466,972
TOTALS:	$2,555,904	$9,899,052	$1,785,380	$4,982,178	$19,222,514

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

TABLE 12
SCHOOL BOND CREDITS AND PAYMENTS

(Payments during 1991 and 1992 from 1990 production year revenues)

School District	Final Payment Year*	Credit	Payment	Total	Outstanding Balance**
318 - Grand Rapids	1997	$ ---	$ 112,280	$ 112,280	$ 780,944
319 - Nashwauk-Keewatin	1993	130,928	---	130,928	388,579
381 - Lake Superior	1995	---	11,953	11,953	278,148
695 - Chisholm	2005	---	320,000	320,000	4,780,000
696 - Ely	2000	---	53,565	53,565	1,104,499
697 - Eveleth	2010	---	320,000	320,000	4,860,000
699 - Gilbert	2010	---	80,000	80,000	1,673,020
701 - Hibbing	1999	---	363,566	363,566	3,236,046
706 - Virginia	2003	---	217,642	217,642	2,861,428
708 - Tower-Soudan	2003	---	92,880	92,880	1,161,266
710 - St. Louis County	1995	---	240,000	240,000	1,200,000
710 - St. Louis County	1996	---	70,000	70,000	2,145,400
710 - St. Louis County	2003	---	109,246	109,246	1,416,174
712 - Mt. Iron-Buhl	1998	849,440	---	849,440	7,448,833
TOTALS:		$980,368	$1,991,132	$2,971,500	$33,334,337

* Production year from which final bond payment will be deducted.

** Portion of outstanding bond balance to be paid by taconite funds (includes interest).

TABLE 13
TACONITE PRODUCTION TAX DISTRIBUTIONS TO COUNTIES - 1991

(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	$ 117,720	$ ---	$187,190	$ 304,910
Itasca	555,320	145,444	---	700,764
Lake	741,222	191,284	243,034	1,175,540
St. Louis	8,479,974	2,291,285	354,153	11,125,412
TOTAL:	$9,894,236	$2,628,013	$784,377	$13,306,626

TABLE 14
TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1990

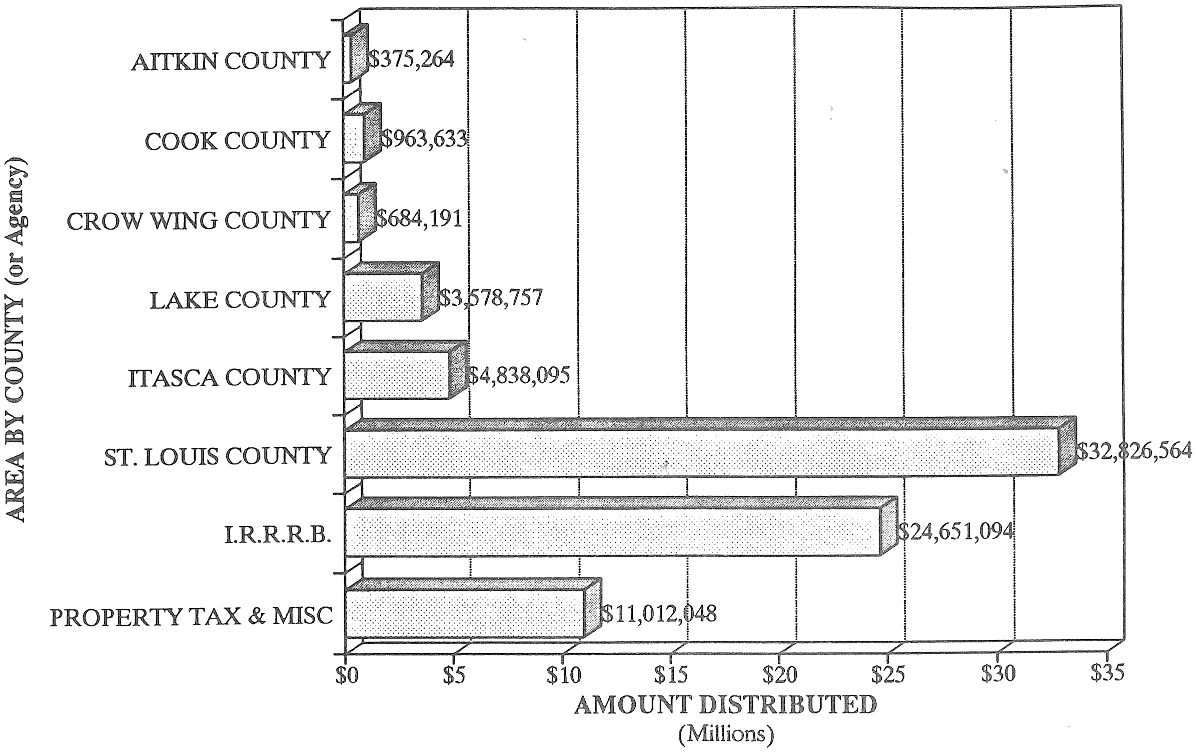
Firm	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	2,384,061	794,687	$1.975	$ 1,569,507
Eveleth	4,417,255	4,522,092	1.975	8,931,132
Hibbing	8,136,923	8,325,606	1.975	16,443,072
Inland	2,265,876	2,260,964	1.975	4,465,404
LTV Steel	7,798,292	7,701,592	1.975	15,210,644
National	4,809,930	4,720,966	1.975	9,192,980
USX	12,709,299	12,134,859	1.975	23,116,907
TOTAL:	42,521,636	40,460,766	$1.975	$78,929,646

ESTIMATED FOR PRODUCTION YEAR 1991

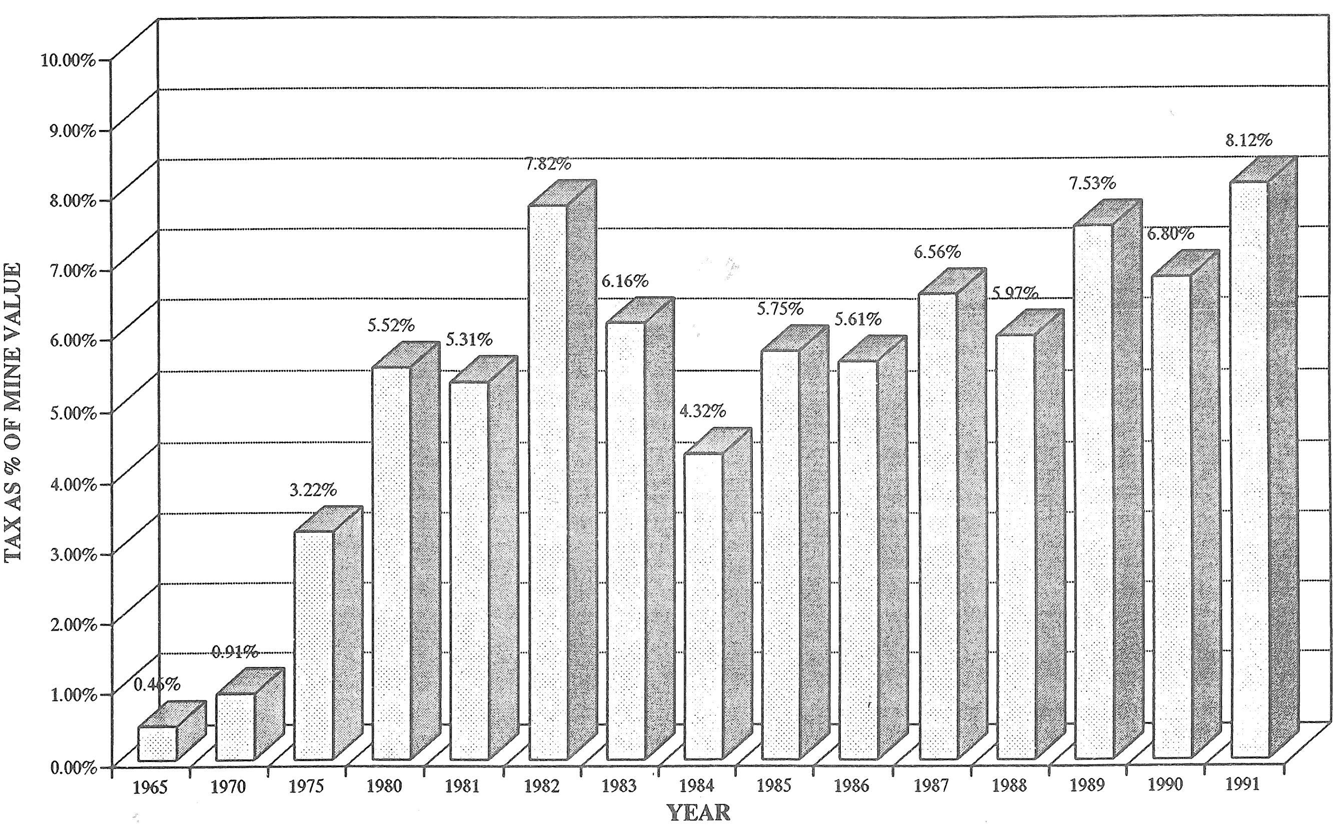
Firm	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	2,500,000	1,628,000	$ 2.054	$ 3,300,000
Eveleth	3,500,000	4,276,000	2.054	8,800,000
Hibbing	7,000,000	7,775,000	2.054	16,000,000
Inland	2,000,000	2,178,000	2.054	4,500,000
LTV Steel	6,500,000	7,239,000	2.054	14,900,000
National	4,000,000	4,518,000	2.054	9,100,000
USX	11,500,000	12,018,000	2.054	23,800,000
TOTAL:	37,000,000	39,632,000	$2.054	$80,400,000

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

1990 TACONITE PRODUCTION TAX DISTRIBUTIONS BY AREA

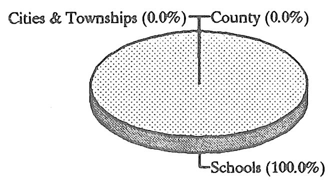


PRODUCTION TAX AS PERCENT OF MINE VALUE



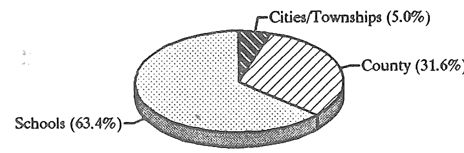
1990 TACONITE PRODUCTION TAX DISTRIBUTIONS

AITKIN COUNTY



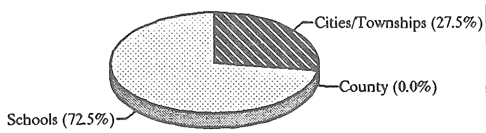
$375,264

COOK COUNTY



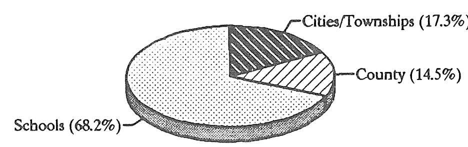
$963,633

CROW WING COUNTY



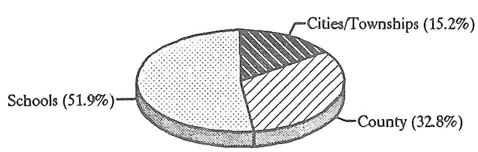
$684,191

ITASCA COUNTY



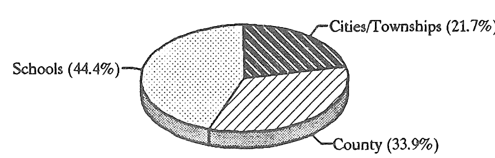
$4,838,095

LAKE COUNTY



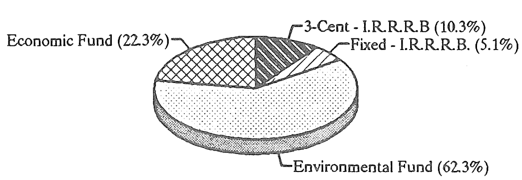
$3,578,757

ST. LOUIS COUNTY



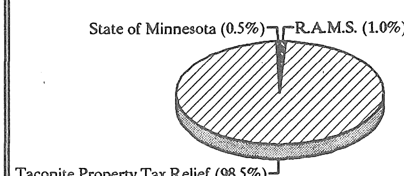
$32,826,564

I.R.R.R.B.



$24,651,094

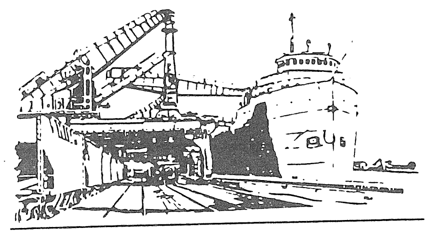
MISCELLANEOUS FUNDS



$11,012,048

TABLE 15

TACONITE PRODUCED (000's) AND PRODUCTION TAX COLLECTED (000's) 1955 - 1991



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	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991 Est.	37,000	80,400	2.174	39,632	2.054

* 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.

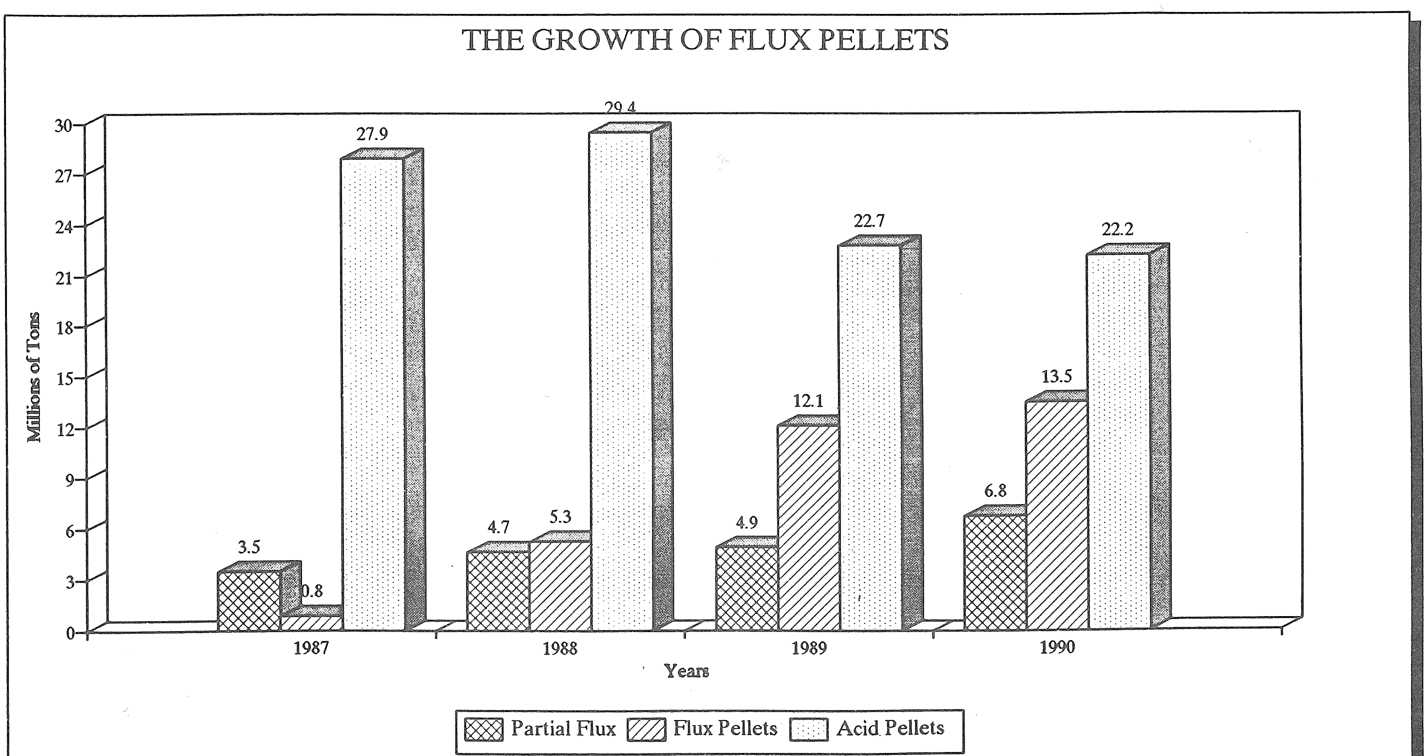
TABLE 16
HISTORY OF N.E. MINNESOTA ECONOMIC PROTECTION TRUST FUND & ENVIRONMENTAL PROTECTION FUND

Period Ending	Economic Fund Balance	Environmental Protection Fund Balance
December 31, 1978	$ 3,022,456	
December 31, 1979	8,952,161	
December 31, 1980	18,948,356	
December 31, 1981	30,944,655	
December 31, 1982	36,302,700	
December 31, 1983	28,487,283	
June 30, 1984	27,019,423	
September 30, 1985	28,859,669	
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,726

Economic Fund Major Withdrawals		
September 27, 1982	$ 2.5 million	I.R.R.R.B. Jobs Program
February 3, 1983	$ 5.0 million	I.R.R.R.B. Jobs Program
May 24, 1983	$10.0 million	I.R.R.R.B. Economic Development
February 25, 1984	$2.08 million	Aid guarantees to cities and schools as per M.S. 298.225*
February & May, 1987	$ .46 million	M.S. 298.225
September 26, 1989	$ 1.9 million	Property Tax Relief Guarantee**

* This aid guarantee formula was revised by the 1984 legislature so that further withdrawals should not be necessary except during serious depression of the iron ore industry.

** Funding for Taconite Property Tax Relief was reduced from 22-cents per ton to 12-cents per ton by the 1988 legislature. When this proved to be inadequate funding, it was increased by the legislature in the 1989 special session from 12-cents to 15-cents per ton. This should eliminate withdrawals from the N.E. Minnesota Economic Fund for property tax relief in normal production years.



OCCUPATION TAX

The Occupation Tax on taconite and iron ore changed significantly after December 31, 1989. As of January 1, 1990, this tax is computed under most of the same provisions as the corporate franchise (income) tax.

The starting value of the 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 9.8 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 before 1990. 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.

ALTERNATIVE MINIMUM TAX

The previous factors AMT, which expired 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 has been replaced by a new AMT based upon the federal corporate AMT.

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

OCCUPATION TAX DISTRIBUTION

All occupation tax paid is deposited in the state general fund. Fifty percent remains in the general fund; forty percent is distributed to elementary and secondary schools, and ten percent to the University of Minnesota. An amount equal to one-cent per taxable ton of taconite is appropriated to the I.R.R.R.B. for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching counties qualify. This money must be used to provide economic or environmental loans or grants.

REGION 3 DISTRIBUTION

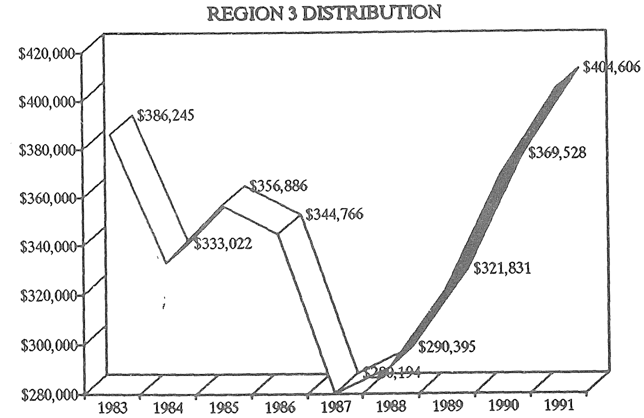


TABLE 17
1990 OCCUPATION TAX MINE VALUE AND OCCUPATION TAX PAID

TACONITE COMPANY	1990 MINE VALUE	1990 OCCUPATION TAX PAID*
Cyprus Northshore Mining Corp.	$ 67,339,465	$ 37,844
Eveleth Mines	126,560,267	-0-
Hibbing Taconite Co.	226,444,058	828,944
Inland Steel Mining Co.	65,597,981	-0-
LTV Steel Mining Co.	210,827,267	-0-
National Steel Pellet Co.	133,210,120	-0-
USX Corporation	365,292,907	1,190,493
TOTALS:	$1,195,272,065	$2,057,281
NATURAL ORE COMPANY		
LTV Steel Company	$ 416,737	$ 11,142

* M.S. 298.40 expired as of December 31, 1989. This statute provided for the refund of tax paid in excess of the limitation amount. Refunds of occupation tax for 1990 and subsequent years is not authorized.

TABLE 18
1990 RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGE*

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons	Less: Flux	Production Tax Production Tons
Cyprus	2,402,155	0.25%	2,396,095	(12,034)	2,384,061
Eveleth	4,507,462	1.47%	4,441,202	(23,947)	4,417,255
Hibbing	8,193,458	0.69%	8,136,923	-0-	8,136,923
Inland	2,408,945	0.00%	2,408,945	(143,069)	2,265,876
LTV Steel	7,798,292	0.00%	7,798,292	-0-	7,798,292
National	4,871,010	1.25%	4,809,930	-0-	4,809,930
USX Corp.	13,494,697	2.30%	13,184,265	(474,966)	12,709,299
TOTAL:	43,676,019	1.51%	43,175,652	(654,016)	42,521,636

* The taconite production tax and the occupation tax use different production tonnages. Table 18 is a reconciliation to show the total production for each company including flux and moisture and excluding flux and moisture. This table should eliminate any errors or misunderstanding concerning tonnage.

OCCUPATION TAX REPORT

OCCUPATION TAX RETURN

The 1991 occupation tax return and any tax due must be filed and paid by May 1, 1992.

The previous procedure of the mining company filing a tax report in March, receiving a tentative determination from the Department on May 1, appealing by May 15, receiving a final determination on June 1, and paying any tax due before June 15 has been eliminated.

The 1991 occupation tax instructions will include information to permit the mining companies to file their return and any tax due by regular mail or overnight delivery.

MINE VALUE

In 1990, the Department of Revenue and representatives of the taconite industry met to develop an ongoing procedure for the annual mine value determination. The procedure agreed upon in December, 1990 was:

Beginning with the 1991 production year, the mine value for occupation tax purposes will be determined by using the following two components:

1) 75 percent of the mine value will be determined by the change in the Steel Mill Products Index (SMPI) from September of the prior year, 1990 to September of the current year, 1991, and

2) 25 percent of the mine value will reflect the actual transaction prices of taconite pellets sold in non-equity sales.

All parties agreed that: a) the mine value for partially fluxed pellets would continue to be the published differential between partially fluxed and acid pellets, and b) the mine value for pellet chips will continue to be 65 percent of the pellet value. However, it was also agreed that the value of flux pellets and pellet chips will continue to be reviewed annually.

MINE VALUE - 1991

The Department of Revenue has continued to review and monitor the steel industry as well as the taconite industry.

As all taconite producers know, the .0155-cents per fe unit differential between flux and acid pellets has been based upon flux pellets containing less than one percent flux additive. These are partially fluxed pellets.

Other taconite companies are producing pellets with four to five percent flux additive in the finished pellets. These are flux pellets. These fluxed pellets have a greater value at the blast furnace than the partially fluxed pellets. The costs of producing flux pellets are also greater than the cost of producing partially fluxed pellets.

Up to now, this higher value of the flux pellets has not been recognized in the occupation tax mine value. However, the increased costs of producion have been allowable deductions to determine the taxable value of production for occupation tax purposes.

For these reasons, the Department of Revenue considers it necessary to develop a more accurate mine value for flux pellets.

Pellets with up to one percent flux in the finished pellet will continue to use the published differential between partially fluxed pellets and acid pellets, currently .0155 per fe unit.

The mine value of pellets containing more than one percent flux will be the acid pellet value plus $.0155 per fe unit per each one percent of flux in the finished product.

EXAMPLE (Using 1990 mine value)

Pellet with 4.0% flux: 4.0 x $.0155 = $.062 higher than the acid pellet value: .420 + .062 + .482. The mine value of flux pellets will be determined by the amount of flux in the pellet.

TABLE 19
OCCUPATION TAX - MINE VALUE
(Historical Summary)

TACONITE

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. In 1988, a lower price for pellet chips was established.

Year		Price Per Fe Unit	Percent Fe	Lake Erie Value Per Ton	Less: Transportation	Mine Value
1965		0.02520	65.00%	16.38	3.64	12.740
1970		0.26600	65.00%	17.29	4.05	13.240
1975		0.46020	65.00%	29.91	6.83	23.080
1980		0.72890	65.00%	47.38	10.70	36.680
1981		0.77880	65.00%	50.62	12.86	37.760
1982		0.86900	65.00%	56.49	12.69	43.800
1983		0.86900	65.00%	56.49	13.03	43.460
1984		0.86900	65.00%	56.49	13.07	43.420
1985		0.72500	65.00%	47.13	13.07	34.060
1986		0.72500	65.00%	47.13	13.07	34.060
1987 (1/1-4/30)		0.72500	65.00%	47.13	13.07	34.060
1987 (5/1-12/31)	Acid	0.37344	65.00%	24.34	-0-	24.340
	Flux	0.38888	62.00%	24.11	-0-	24.110
1988	Acid	0.37344	65.00%	24.34	-0-	24.340
	Flux	0.38888	62.00%	24.11	-0-	24.110
	Pellet Chips	0.24065	65.00%	15.64	-0-	15.640
1989	Acid	0.37344	65.00%	24.34	-0-	24.340
	Flux	0.38888	62.00%	24.11	-0-	24.110
	Pellet Chips	0.24065	65.00%	15.64	-0-	15.640
1990	Acid	0.42000	65.00%	27.30	-0-	27.300
	Flux	0.43500	62.00%	26.97	-0-	26.970
	Pellet Chips	0.27300	65.00%	17.745	-0-	17.745

NATURAL ORE

Year	Price Per Fe Unit	Percent Fe	Lake Erie Value Per Ton	Less: Transportation	Mine Value
1965	0.204900	51.50%	10.55	3.64	6.91
1970	0.209700	51.50%	10.80	4.05	6.75
1975	0.347200	51.50%	17.88	6.83	11.05
1980	0.521700	51.50%	26.87	10.70	16.17
1981	0.581100	51.50%	29.93	12.86	17.07
1982	0.631600	51.50%	32.53	12.69	19.84
1983	0.617500	51.50%	31.80	13.03	18.77
1984	0.612200	51.50%	31.53	13.07	18.46
1985	0.612200	51.50%	31.53	13.07	18.46
1986	0.612200	51.50%	31.53	13.07	18.46
1987	0.612200	51.50%	31.53	13.07	18.46
1987	0.323500	51.50%	16.66	-0-	16.66
1988	0.323500	51.50%	16.66	-0-	16.66
1989	0.323500	51.50%	16.66	-0-	16.66
1990	0.307733	51.50%	15.85	-0-	15.85

TABLE 20

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

1955 - 1990

	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
1963	28,682	10,886	16,701	1,426	45,383	12,312
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	11,372*	51,033	12,604
1982	789	719	23,445	-0-*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109**	5,356	33,512	6,145
1988	743	294	39,772**	2,993	40,515	3,287
1989	603	160	39,882**	350	40,485	510
1990	417	11	43,176**	2,057	43,593	2,068
1991 Est.	450	15	37,000**	3,000	37,450	3,015

* Actual tax collected as adjusted by the provisions of M.S. 298.40. For additional information on the tax due and amounts offset, see Table 23 in the 1990 Minnesota Mining Tax Guide.

**Refer to Table 18 - Reconciliation of Occupation Tax and Production Tax Tonnage.

TABLE 21

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

Year	Tons Produced (000 Tons)	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*	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**	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
1989	39,882	24.424**	16.127	-0-**	1.083	5.439	.554	2.025	.999	1.161	(2.964)	.009
1990*	43,176	27.444	16.543	-0-**	1.076	6.007	.434	1.957	1.056	1.129	(0.758)	.048

Beginning with 1990, the information in this table comes from the Production Cost Summary Information Report (based upon the pre-1990 Occupation Tax Report) because the post-1990 Occupation Tax Report no longer provides this detail.

(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 Table 19 - Occupation Tax - Mine Value.

** The transportation allowance was eliminated when 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 Table 19.

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

* The 1986 numbers do not include Reserve Mining, which ceased production in August, 1986 due to bankruptcy. The 1990 numbers include Cyprus Northshore which reopened Reserve Mining in 1990.

TABLE 22

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
1989	39,882	95,238	2.388	425,570	10.671	109,483	2.745	.090	15.894
1990	43,176	116,305	2.694	471,931	10.930	110,641	2.562	.100	16.543

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
1989	39,882	61,850	1.551	82,090	2.058	3.609	.554	4.163
1990*	43,176	70,770	1.639	105,330	2.440	4.029	.434	4.513

Beginning with 1990, the information in this table comes from the Production Cost Summary Information Report (based upon the pre-1990 Occupation Tax Report) because the post-1990 Occupation Tax Report no longer provides this detail.

* The 1986 numbers do not include Reserve Mining which ceased production in August, 1986 due to bankruptcy. The 1990 numbers include Cyprus Northshore Mining Corporation which reopened Reserve Mining in January, 1990.

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY M.S. 290.923

Effective January 1, 1990, all payers of mining and exploration royalty are 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 is seven percent of the royalty 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 (copper, nickel, gold, etc.) subject to the Net Proceeds Tax. Royalties can include rents, bonus payments, and non-recoverable lease payments.

ROYALTY PAYERS

Royalty payers have the option to apply for a separate Minnesota tax identification number to be used for reporting income tax withholding on mining/exploration royalty rather than combining it with the wage/salary withholding. To apply for a separate identification number, an Application for Tax Identification Number, Form MBA, must be completed and submitted to the Minnesota Department of Revenue. When reporting royalty withholding under its own identification, separate returns must be used--MW-1: Quarterly Withholding Return; MW-3: Annual Reconciliation of Income Tax Withheld, and MW-5: Minnesota Income Tax Withholding Deposit Form.

Royalty payers are obligated to inform recipients of the withholding tax requirement and must provide them with a federal form W-4, exemption certificate. The State of Minnesota uses the federal form because a similar state form is not available. The W-4 informs the payer whether or not to withhold tax from the recipient. Unless the payer receives a W-4, the payer is obligated to withhold tax. Copies of the W-4's received from royalty recipients must be sent to the Minerals Tax Division, P. O. Box 481, Eveleth, MN 55734-0481.

Royalty payments made to the State of Minnesota or other government units are not subject to withholding of income tax. A W-4 is not required.

Royalty payers must provide each royalty recipient with a federal form 1099 MISC by January 31st for the royalty paid during the previous year. The 1099 MISC for the year 1990 has blocks to report the amount of royalty paid, the amount of tax withheld, and to identify the state where the royalty was incurred.

Royalty paid to a simple trust (a trust that distributes all the royalty income to its beneficiaries) is tax exempt unless it elects to have the withholding tax deducted. The trust is entitled to that option but must inform the royalty payer by the use of a W-4 or by a letter of its decision. If the trust chooses the tax exempt status, it then becomes the royalty payer and is subject to the same obligations as previously discussed:

1. The trust becomes responsible for withholding from the beneficiaries.

2. The trust must inform the beneficiaries of the requirements to withhold tax and provide them with a W-4.

3. The trust must provide each beneficiary with the 1099 MISC by January 31st of the following year.

4. The trust must prepare and submit the required withholding returns--MW-1, MW-3, and MW-5 to the State of Minnesota.

When dealing with large trusts whose shares are traded on the stock market, withholding tax liability is determined as follows:

1. Income tax withholding is not required when royalty is paid to a nominee such as Shearson, Lehman & Hutton (an entity who merely holds title to an interest and passes the benefits of ownership to a third party).

2. Income tax withholding is required, however, when the nominee is an individual or a fiduciary trust and the royalties paid exceed $250 per quarter or $1,000 annually. If the royalty exceeds these amounts, the payer is obligated to withhold the tax unless the nominee furnishes the payer a W-4 exemption certificate.

The MW-3 (Annual Reconciliation of Income Tax Withheld), must be submitted to the Department of Revenue by February 28th, whether tax was withheld or not. The MW-3 must be accompanied by the 1099 MISC forms for each recipient. Royalty payers with over 250 recipients must provide the Department of Revenue with the 1099 MISC information on magnetic tape. Royalty payers with less than 250 recipients can submit the 1099 MISC information on disc or paper copy. It must, however, be consistent with the federal format.

If a separate identification number is used for royalty withholding only, the MW-3 and 1099 MISC, where applicable, must be submitted to:

Minerals Tax Division
P. O. Box 481
Eveleth, MN 55734-0481

If the same identification number is used for both wages and royalty withholding, submit the MW-3 and the 1099 MISC, where applicable, to:

Withholding Tax
Mail Station 1195
St. Paul, MN 55146-1195

Where wages and royalty withholding are combined, a copy of the MW-3 and the 1099 MISC's must also be sent to the Minerals Tax Division at the address mentioned above.

ROYALTY RECIPIENTS

Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year are exempt from the withholding tax. Non-resident individuals will not incur a Minnesota income tax liability for 1991 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $5,500. A W-4 exemption certificate must be filed with the royalty payer so that Minnesota income tax will not be withheld from the royalties received.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return to obtain a refund.

Royalty recipients are eligible to use percentage depletion on their individual income tax returns as long as that income is not subject to capital gains treatment.

For information previously provided about income tax withholding on mining and exploration royalty, refer to the 1989 through 1991 Minerals Tax News or the 1989 and 1990 Minnesota Mining Tax Guide.

QUESTIONS/FORMS

Inquiries should be directed to the Minerals Tax Office.

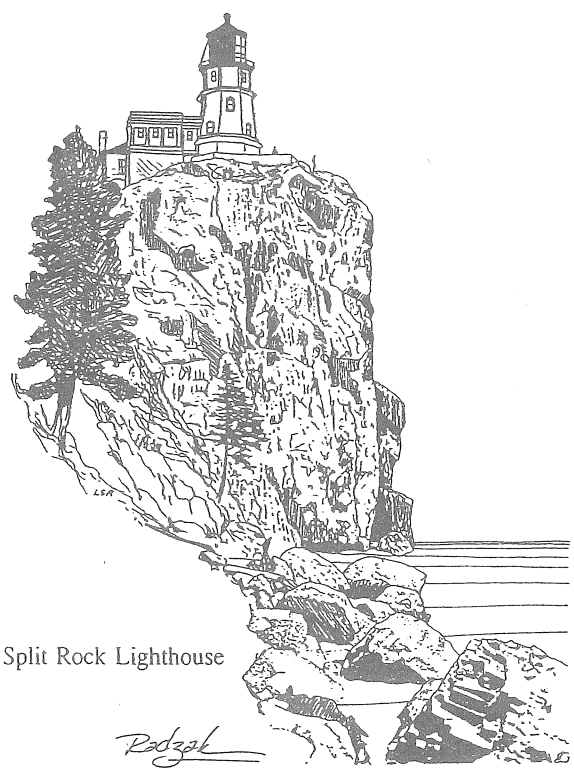
Forms can be obtained by contacting:

Forms Distribution
Administrative Services
Minnesota Department 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 the general filing requirements also pertain to royalty withholding.

ROYALTY TABLES (Page 32)

The royalty cost per ton beginning from 1970 to date (Table 23) is located on page 32.



Split Rock Lighthouse

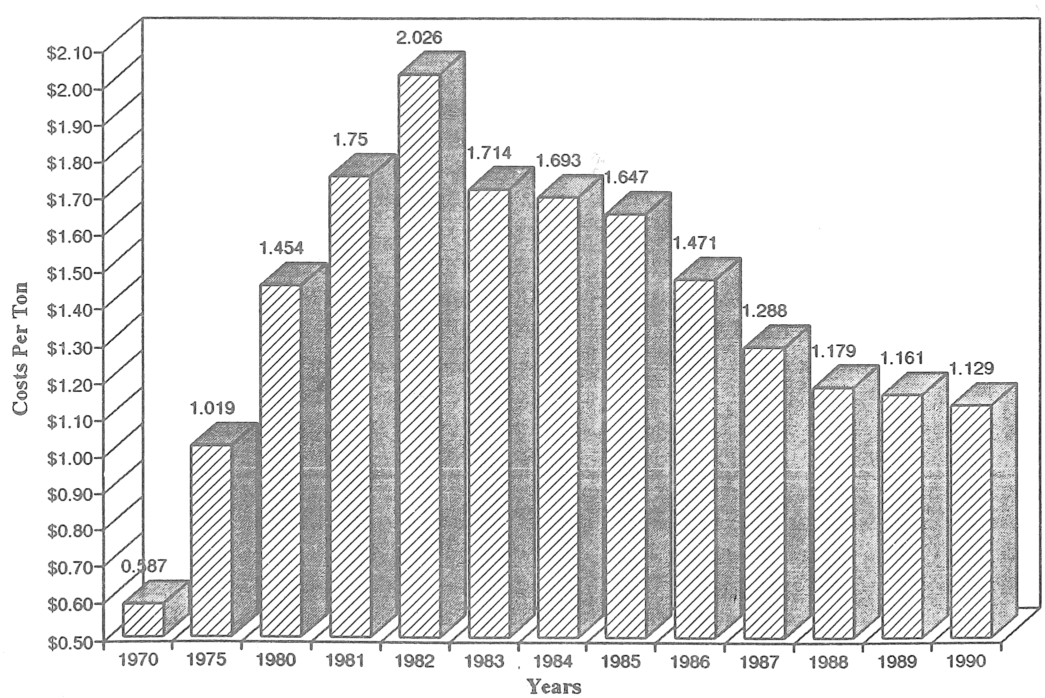
TABLE 23
ROYALTY COST PER TON OF PELLETS PRODUCED

	1970	1975	1980	1985	1986	1987	1988	1989	1990
Industry Production (millions of tons):	35.3	40.8	43.0	33.3	25.5	32.1	39.8	39.9	43.2
Butler	0.714	1.139	1.815	1.954	Closed	Closed	Closed	Closed	Closed
Reserve/Cyprus*	1.120	1.919	2.820	3.087	0.882	Closed	Closed	*	1.350
Erie (LTV)	0.314	0.954	1.749	2.289	2.144	1.897	1.496	1.086	1.288
Eveleth	0.949	2.218	3.578	3.333	2.808	2.472	2.802	2.417	2.498
Hibbing	N/A	N/A	0.875	1.209	1.104	0.928	1.028	1.086	.988
Inland	N/A	N/A	1.212	1.801	1.613	1.604	1.334	1.389	1.396
National	0.549	0.974	1.525	2.001	1.825	1.648	1.678	2.239	2.041
USX-Minntac	0.000	0.171	0.288	0.334	0.277	0.268	0.284	0.287	0.239
Industry Average:									
Weighted:	0.587	1.019	1.454	1.647	1.471	1.288	1.180	1.161	1.129
Arithmetic:	0.729	1.229	1.732	2.001	1.521	1.469	1.437	1.442	1.400

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

Beginning with 1990, the information in this table comes from the Production Cost Summary Information Report (based upon the pre-1990 Occupation Tax Report) because the post-1990 Occupation Tax Report no longer provides this detail.

ROYALTY COSTS PER TON



SALES AND USE TAX

The sales and use tax became effective on August 1, 1967. Both natural ore mining and taconite facilities are subject to this tax, 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 paid by the purchaser (user) is imposed on the use, storage, or consumption of tangible personal property for which no sales tax was assessed (paid) at the time of purchase.

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 1971 Minnesota Legislature approved the production materials exemption M.S. 297A.25, Subd. 15, exclusively for the taconite mining industry. This statute allows for the exemption from sales tax of grinding rods, grinding balls, and mill liners which are substantially consumed in the production of taconite. During the process, this material is added to and becomes a part of the product being processed. For the purpose of the exemption, the term "mill" includes all of the facilities used to reduce and process the ore.

In 1974, the Minnesota Legislature amended the industrial production exemption M.S. 297A.25, Subd. 9, to cover accessory tools. The accessory tool exemption is available to all manufacturing-type businesses. The legislature, in defining what qualifies as an accessory tool, set three standards that must be met: 1) an item must be separate and detachable, 2) it must have a direct effect on the product, and 3) it must have a useful life of less than twelve months. In mining, 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.

Effective July 1, 1984, the State of Minnesota instituted a two percent refund of sales tax paid on purchases of capital equipment for new or expanding businesses. In the 1989 special legislative session, the legislature extended the refund to the full six percent of sales tax paid on capital equipment. The 1990 legislative session expanded the definition of capital equipment to cover equipment used to extract raw materials, such as drills, shovels, and trucks which previously did not qualify for a refund. A business filing a claim for refund on capital equipment purchased for a new or expanding business will be allowed to claim the full 6.5 percent of tax paid on purchases made after July 1, 1991. Claims should be for only the capital equipment and the materials and supplies necessary to construct or install the machinery or equipment. Electrical wire, cable trays, pipe, pipe hangers and launders used to supply power to the equipment or carry the product from one process to another do not qualify.

Only two claims for refund can be filed per year, however, they can be for more than one project. The exemption does not apply to the purchase or lease of machinery or equipment to replace existing items, repair or replacement parts for machinery or equipment, or equipment used to receive or store raw materials.

In the interest of better administrative control, the Department of Revenue authorizes Direct Pay Permits to any concern which supports extensive and varied purchase inventories.

1991 LAW CHANGES

Effective July 1, 1991, the Minnesota sales and use tax rate increased from 6.0 percent to 6.5 percent. The additional 0.5 percent will be returned to the counties to cover the cost of programs previously funded by the state. The remaining 6.0 percent of sales and use tax revenue is deposited in the General Fund.

A major change made by the 1991 legislature was the repealing of the occasional sale exemption. Any business now selling its tangible personal property primarily used in a trade or business will be required to collect the sales tax on the selling price. Transactions involving corporations and partnerships follow federal rules in determining the taxability of the transaction. There are a few instances where sales tax is not collected such as when the purchaser presents a proper sales tax exemption certificate, the business has a Minnesota direct pay permit, or the purchaser is from out-of-state and will be removing the machinery or equipment from Minnesota.

Beginning with the December, 1991 sales tax return payable on January 20, 1992, a business that paid more than $240,000 in sales and use tax for fiscal year 1991 (July 1, 1990 through June 30, 1991), will have to remit their tax using electronic fund transfer.

USE TAX HISTORY

YEAR	USE TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	REFUND* CLAIMS	NET USE TAX COLLECTED
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	11,112,722	129,744	$ 83,478	10,899,500
1990	13,127,042	-0-	104,173	13,022,869
1991 Est.	12,000,000	-0-	500,000	11,500,000

* These are capital equipment refund claims for a new or expanding business.

GRAVEL TAX

This tax is actually a production tax on the removal of aggregate material. It is found in M.S. 298.75. This is not a state tax, but a county tax mandated by the state legislature. The counties in which this tax applies are: Becker, Benton, Big Stone, Carver, Clay, Dakota, Hennepin, Kittson, LeSueur, Mahnomen, Marshall, Norman, Pennington, Polk, Ramsey, Red Lake, Scott, Sherburne, Sibley, Stearns, Washington, and Wilkins.

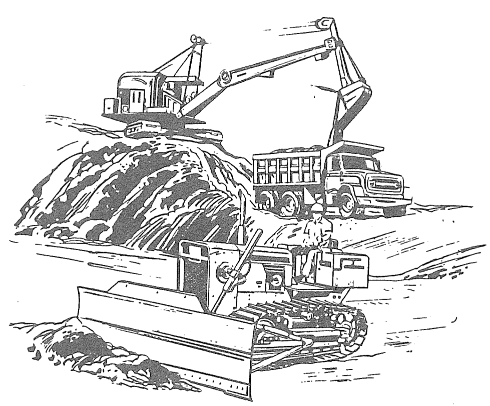
"'Aggregate material' shall mean nonmetallic natural mineral aggregate including, but not limited to sand, silica sand, gravel, building stone, crushed rock, limestone, and granite" not including dimension stone or dimension granite.

The tax is ten (10) cents per cubic yard or seven (7) cents per short ton of aggregate produced and sold or imported into any county imposing this tax.

The tax is paid to the county treasurer and must by law be dedicated to the county and affected township road and bridge fund.

This is a county tax, but the Minerals Tax Office and the Department of Revenue do get calls for information or assistance from either the county or an aggregate producer.

If more information is desired, please contact the Minerals Tax Office.



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, 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.

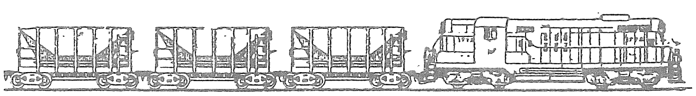
Each railroad is required to file an annual report containing the necessary information for the State Assessed Property Section to complete their valuation and apportionment.

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 were due May 15, 1990 with the second half payment due October 15, 1990. The final taconite railroad gross earnings tax payments due for the second half of 1988 were payable in March, 1989.



TACONITE RAILROAD AD VALOREM TAX ASSESSMENTS

Year Payable	Year Assessed	St. Louis County	Lake County	Cook County	Total Tax
1990	1989	$105,167*	$156,675*	$5,037	$266,879
1991	1990	$112,800	$145,573	$5,319	$263,692

* Part of the tax assessed in 1989 (payable 1990) was not paid due to Reserve Mining Company bankruptcy. Taxes have been kept current since Cyprus assumed ownership.

Minnesota Iron Mining Industry Facts

	1930	1990
Number of Employed Personnel	7,752	6,294
Tons of Ore Shipped or Produced	25,196,155 shipped	42,521,636 produced
Average Wage Paid	$5.33/day	$14.96/hour

*Does not include fringe benefits

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).

For payable 1991, the tax is calculated by multiplying the market value for the parcel of land times the 4.95 percent class rate (4.75 percent for payable 1992) times the local tax rate for that specific tax area. (NOTE: Call your county assessor for more information).

TABLE 24 - UNMINED TACONITE TAX (YEAR PAYABLE)*

County	1985	1986	1987	1988	1989	1990	1991
Itasca	34,485	36,123	**	**	**	**	**
St. Louis	286,904	360,546	384,697	392,614	365,244	355,065	352,935
Totals:	321,389	396,669	384,697	392,614	365,244	355,065	352,935

* 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. Also included are lands stripped and ready for mining, but not lands merely cleared of trees. Exemptions are granted by parcel basis to the nearest five acres. 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 a class rate of 4.95 percent to obtain tax capacity which is then multiplied by the local tax rate to calculate tax payable. The class rate for the timber classification, on the other hand, is 1.6 percent of the estimated market value or about one-third the industrial class rate.

These class rates are set by the Minnesota legislature for taxes payable 1991. For payable 1992, the class rate for the industrial classification is 4.75 percent while timber remained at 1.6 percent. Local tax rates are determined by county, local government and school district spending. For 1991, they range from a low of approximately .9 to a high of approximately 1.80 in St. Louis County.

The above 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 one-quarter mile from mining activity) that have been disturbed by natural ore mining activity. This schedule was implemented in St. Louis County beginning in 1988 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 ins., etc.)
4. Development (future)
5. Plant & Equipment (future)
6. Freight & 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 & Working Capital

*Since 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

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 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 was 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 is 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 extension rate" is replaced by local tax rate. This would once have been called a mill rate.

For taxes payable in 1991, the class rate for Class 5 property is reduced to 4.95 percent. Local tax rates are a function of county, local government, and school district spending. For 1990, they range from a low of approximately .9 to a high of approximately 1.8 in St. Louis County. The following class rates are scheduled to take effect in future years:

	Class Rate
Payable 1992	4.75%
Payable 1993	4.70%
Payable 1994	4.60%

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 1979 are listed as follows:

YEAR ASSESSED	MARKET VALUE	YEAR PAYABLE	ESTIMATED TAX PAYABLE CROW WING	ESTIMATED TAX PAYABLE ITASCA	ESTIMATED TAX PAYABLE ST. LOUIS	TOTAL
1979	$30,526,244	1980	$50,034	$774,064	$3,518,928	$4,343,026
1980	26,772,233	1981	42,659	585,267	3,061,142	3,689,068
1981	25,378,108	1982	43,640	487,610	3,239,027	3,770,277
1982	22,442,833	1983	44,479	217,269	3,282,925	3,544,673
1983	20,875,960	1984	51,659	222,023	3,425,894	3,699,576
1984	17,030,758	1985	50,925	152,997	3,122,369	3,326,291
1985	14,092,882	1986	49,508	142,558	2,844,507	3,036,573
1986	11,058,467	1987	29,405	113,672	2,483,064	2,626,141
1987	8,608,800	1988	30,228	112,449	2,229,592	2,372,269
1988	5,771,300	1989	19,365	46,426	812,665	878,456
1989	5,808,900	1990	18,633	44,130	811,489	874,252
1990	3,401,700	1991	17,712	41,199	643,690	702,601

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 May 20th. It was held May 21, 1991 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 during 1990 and 1991 as the Donora ore body is exhausted.

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 (1990).

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 severed 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 from local property taxes. The following table is a summary of revenues from the severed mineral tax from 1982 - 1990:

Period Ending	Total Collections of Affected Counties	Payment to Indian Business Loan Account
June 30, 1982	$535,552	$107,110
June 30, 1983	482,009	96,402
June 30, 1984	438,738	87,748
June 30, 1985	528,310	105,662
June 30, 1986	424,474	84,897
June 30, 1987	373,320	74,664
June 30, 1988	503,940	100,788
June 30, 1989	410,854	82,171
June 30, 1990	476,080	95,216
Dec. 31, 1990	472,215	94,443

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

TABLE 25
APPLICABLE TAXES FOR BASE & PRECIOUS METALS

Tax	Current Laws	
Occupation Tax (Equivalent to Corporate Income Tax)	(M.S. 298.01) - 9.8% same as Corporate Income Tax	See Page 23
Ad Valorem Tax (Smelter & Plant Facilities)	(M.S. 272 and 273)	See Page 42
Severed Mineral Interest	(M.S. 273.165)	See Page 40
Sales & Use Tax	(M.S. 297A) - 6.5%	See Page 33
Net Proceeds Tax	(M.S. 298.015) - 2.0%	See Page 43
Withholding Tax on Royalty Payments	(M.S. 290.923) - 7% Withholding from Royalty Payments	See Page 30

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 1990.

The Corporate Income Tax is 9.8 percent and contains an alternative minimum tax. 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 (70%). 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, or contact the Minerals Tax Division.

AD VALOREM TAX

The 1991 legislature amended the definition of real property to specifically exclude mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under chapter 298. This is consistent with the Department of Revenue's previously stated position on taxation of those items. The tax on ore reserves (other than taconite and iron ore) was specifically removed in 1987. (M.S. 273.12, 1987, c. 268, art. 957). Companies mining any of the minerals listed would be subject to 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 1991, the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Storage buildings may be assessed as low as $9 or $10 per square foot. 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 following paragraph describes how Minnesota's property tax is computed:

For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate of 4.95 percent to obtain gross tax capacity (The first $100,000 of value is at 3.2 percent). This is then multiplied by the local tax rate to calculate tax payable. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates varied from a low of about .9 to a high of approximately 1.80. 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". For taxes payable in future years, the legislature has established target class rates lower than the current rate in an effort to reduce the tax burden on commercial and industrial property. These rates are as follows:

	CLASS RATES	
	Over $100,000	First $100,000
Payable 1992	4.75%	3.1%
Payable 1993	4.70%	3.0%
Payable 1994	4.60%	3.0%

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.

WITHHOLDING TAX ON ROYALTY

Beginning 1-1-90, it is required that all persons or companies paying royalty begin to withhold Minnesota income tax from their royalty payments (7%) 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 6.5 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, all clays, 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 has been in effect since 1987 and is due on June 15 of the year succeeding the calendar year of the report.

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. Following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

-- Sales, marketing, and interest expense.
-- Insurance and tax expense not specifically allowed.
-- Administrative expense outside of Minnesota.
-- Research expense prior to production.
-- Any reserve for reclamation costs after production ends (1990 legislature).
-- 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 per Section 167 of the I.R.C.
-- 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.
-- Reclamation costs paid in a year of production (1990 legislature).

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.

TABLE 26 -- 1991 ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

JANUARY	FEBRUARY	MARCH	APRIL
-- Ad Valorem Tax Reports mailed to companies. -- Ad Valorem estimates submitted by companies (January - February). 15 -- Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum. 31 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.	1 -- Royalty/Withholding Tax Paid Report, MT2-RW, due. 1 -- Taconite Tax Report due from companies. 8 -- Taconite Production Tax determinations mailed to companies. 8 -- Computer printout listing 90% production tax payment sent to county auditors. School bond payment schedule mailed to Itasca, Lake, and St. Louis counties. 10 -- Notice of taconite municipal aid mailed to communities. 15 -- Ninety percent payment of the Taconite Production Tax due in county offices. 15 --Ad Valorem Tax Reports due from mining companies. 25 -- Distribution of Taconite Production Tax by counties (collected Feb. 15). 28 -- Form MW-3, MN Annual Reconciliation of Income Tax Withheld due.	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. 15 --Ad Valorem Tax present worth estimates mailed to companies. 30 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.
MAY	**JUNE**	**JULY**	**AUGUST**
1 -- Occupation Tax Report and payment due. 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 -- First half property tax on taconite railroad property due to counties. 20 -- Ad Valorem tax hearing held on first business day after May 20.	30 -- Ad Valorem Tax final adjustments to property equalization sheets mailed to county assessors.	1 -- Commissioner of Revenue will certify amount of Taconite Municipal Aid to municipality. 15 -- Taconite Referendum distribution of Taconite Production Tax made by the counties. 31 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.	-- Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e., eighth-monthly period or monthly.
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
15 -- Taconite Municipal Aid account funds distributed.	10 -- Taconite Production Tax estimates due from companies. 15 -- Second half property tax on taconite railroad property due to counties. 31 -- Form MW-1, Minnesota Employer's Quarterly Withholding Return due.		1 -- Minerals Tax Division submits Unmined Taconite Tax Reports to county assessors. 30 -- Occupation Tax forms mailed to companies. 30 -- Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies.

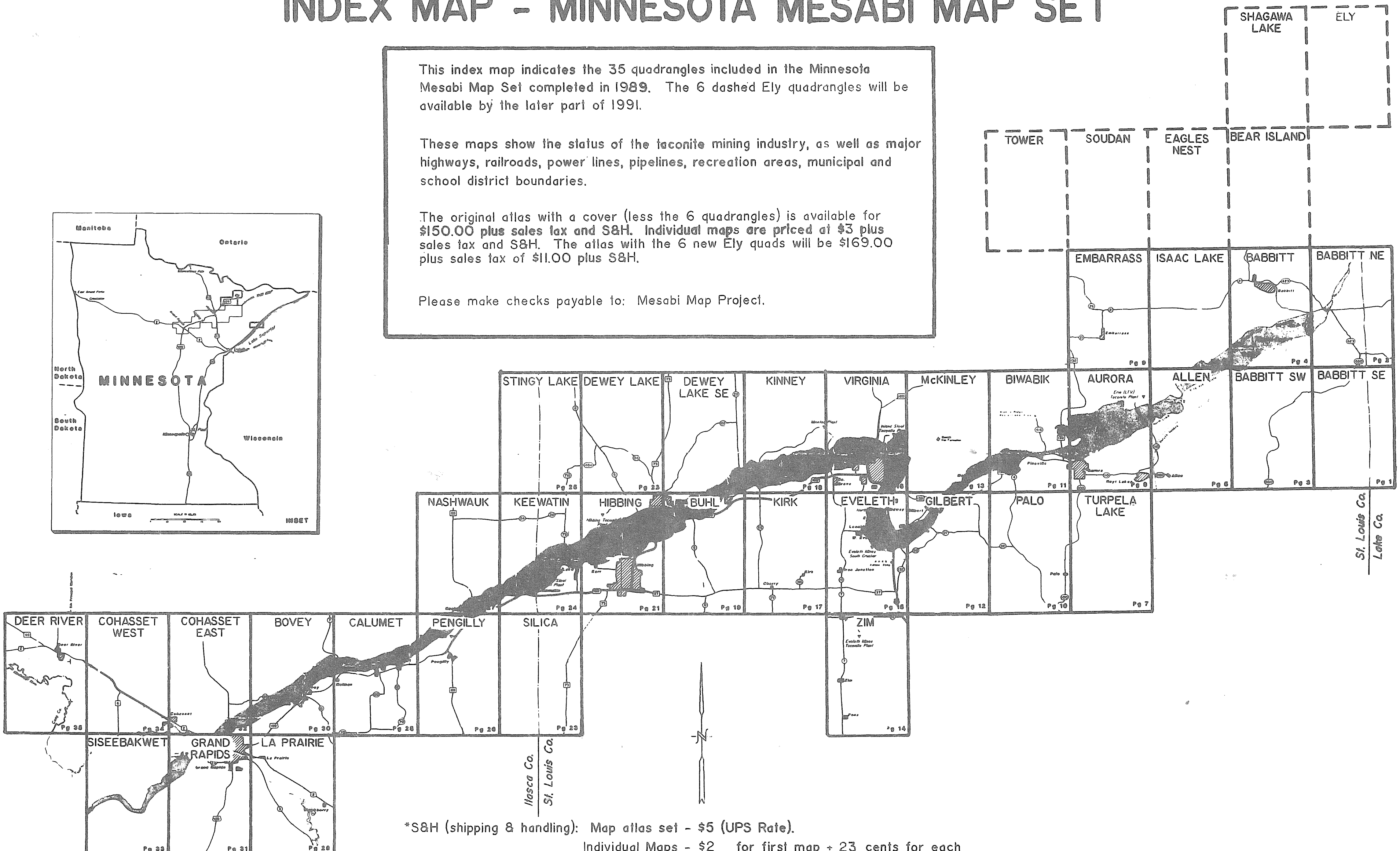
INDEX MAP - MINNESOTA MESABI MAP SET

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set completed in 1989. The 6 dashed Ely quadrangles will be available by the later part of 1991.

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.

The original atlas with a cover (less the 6 quadrangles) is available for $150.00 plus sales tax and S&H. **Individual maps are priced at $3 plus** sales tax and S&H. The atlas with the 6 new Ely quads will be $169.00 plus sales tax of $11.00 plus S&H.

Please make checks payable to: Mesabi Map Project.



*S&H (shipping & handling): Map atlas set - $5 (UPS Rate).
Individual Maps - $2 for first map + 23 cents for each additional map up to nine maps (First Class Mail).

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

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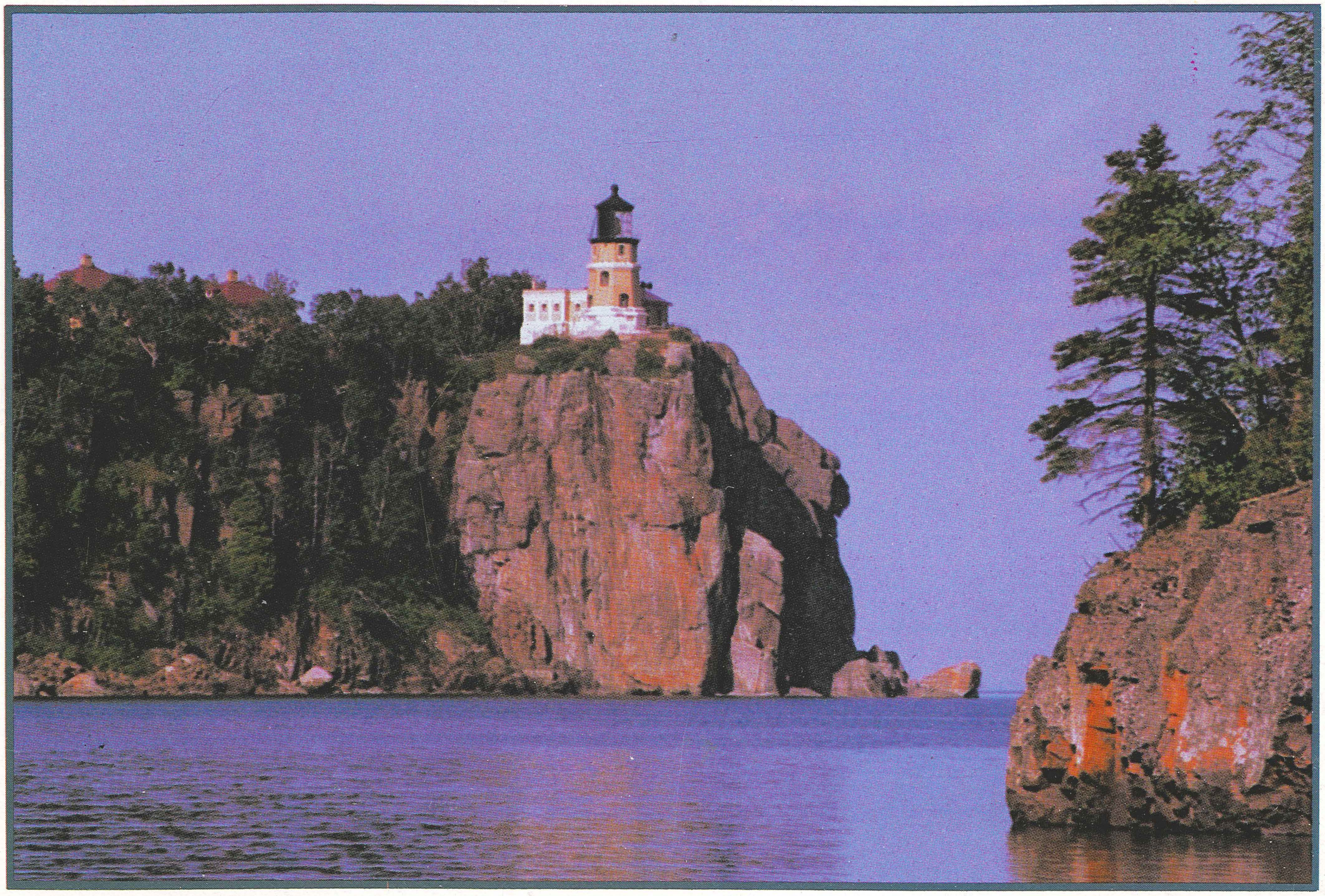

SPLIT ROCK LIGHTHOUSE