Mining Tax Guide

Erie Mining Company Concentrators,
circa 1957 – 1964
Photo from the Fred A. Cina Collection
Courtesy Iron Range Research Center,
Chisholm, Minnesota

MINNESOTA · REVENUE

November 2011

2011 Distribution of Taconite Production Tax

2010 Production Year

Total Taconite Production Tax

$79,138,000*

Production tax is $2.380 per taxable ton.
The three-year average taxable tonnage was 30,437,692 tons.

* Included is $6,696,292 from the state general fund (22.0 cpt)

cpt = cents per taxable ton

Cities and townships — $10,040,153 — 33.0 cpt

- City and Township Mining & Conc Fund** — $1,707,978 — 5.6 cpt
- Township Fund — $938,421 — 3.1 cpt
- Taconite Municipal Aid** — $5,234,627 — 17.2 cpt
- Taconite railroad — $591,142 — 1.9 cpt
- Mining effects** — $1,474,603 — 4.9 cpt
- Special City/ Township Fund — $93,382 — 0.3 cpt
  - Transferred from schools for city/ township — $0 — 0.0 cpt

School districts — $17,094,176 — 56.2 cpt

- Taconite School $0.0343 Fund** — $1,296,216 — 4.3 cpt***
- Regular School $.1572 Fund** — $5,670,746 — 18.6 cpt***
- Taconite railroad — $1,106,935 — 3.6 cpt ***
- Building Maintenance Fund — $1,217,160 — 4.0 cpt
- Taconite Referendum — $2,974,743 — 9.8 cpt
- School bond payments — $4,021,158 — 13.2 cpt
- Taconite Levy Shortfall Payment — $807,218 — 2.7 cpt

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

Counties — $13,304,905 — 43.7 cpt

- Regular County Fund** — $8,862,567 — 29.1 cpt
- County Road and Bridge Fund** — $3,657,961 — 12.0 cpt
- Taconite railroad — $784,377 — 2.6 cpt

Property tax relief and misc. — $11,846,794 — 38.9 cpt

- Taconite Property Tax Relief — $11,846,794 — 38.9 cpt

IRRRB — $17,007,197 — 55.9 cpt

- IRRRB Fund** — $2,811,548 — 9.5 cpt
- IRRRB Fixed Fund — $1,252,520 — 4.1 cpt
- Taconite Env. Protection Fund — $6,386,643 — 21.0 cpt
- Producer Grant & Loan Fund — $2,782,967 — 9.1 cpt
- IRR Educational Revenue Bonds — $1,408,725 — 4.6 cpt
- Douglas J. Johnson Economic Protection Trust Fund — $842,910 — 2.8 cpt
  - Guarantee Fund M.S. 298.225 M.S. 298.293
- Iron Range Higher Education Acct — $1,521,884 — 5.0 cpt

** Payments to the funds are guaranteed at a percentage level of the base year (1983 or 1999) by M.S. 298.225 for local aids and M.S. 298.293 for property tax relief.

Other — $9,844,775 — 32.3 cpt

- Taconite Economic Development Fund — $9,673,605 — 31.8 cpt
- Range Association of Municipalities & Schools — $110,294 — 0.3 cpt
- Hockey Hall of Fame — $60,876 — 0.2 cpt

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The *Minnesota Mining Tax Guide* is published by the Minnesota Department of Revenue. It is available on our website at **www.revenue.state.mn.us** or by calling the Minerals Tax Office at (218) 744-7424. Alternative formats for persons with visual impairments or other disabilities are provided upon request. TTY users, contact us through the Minnesota Relay Service at 711.

If you have suggestions on how to make the Mining Tax Guide a more useful publication, please call or email Jamie TenEyck or Bob Wagstrom at the Minerals Tax Office (see contact information above). We look forward to hearing from you!

Introduction

The *Minnesota Mining Tax Guide* is published to identify all Minnesota mining-related taxes paid by the mining industry. This book strives to simplify the complicated tax statutes using language that is easy to understand and non-technical narratives, tables, graphs and flowcharts.

Taconite Production Tax

The taconite production tax is the largest tax paid by the iron mining industry. It is a major source of revenue to the counties, municipalities and school districts within the taconite assistance area.

The production tax distributed in 2011 is the tax due for the 2010 production year. The taconite production tax rate for concentrates and pellets produced in 2010 was $2.380 per taxable ton. The taxable tonnage for 2010 is the average tonnage produced in 2008, 2009 and 2010. If this tax is imposed on other iron-bearing material, it is applied to the current-year production.

The inside front cover illustrates where the production tax is distributed. It shows both the cents per ton (cpt) distribution and the total amount distributed to various funds. The funds to which the production tax are distributed are explained on pages 7–11, *Distribution of Funds.*

State Taxes

Other major taxes paid by the mining industry are the occupation tax, similar to an income tax, pages 30 - 38, and sales and use tax, pages 42–44. These taxes are deposited in the State General Fund.

Aggregate Material Sales/Use Tax

An explanation of sales and use tax on aggregate material is found on page 45.

County Taxes

Other taconite and iron ore ad valorem (property) taxes are paid directly to the counties, pages 46–52. These are property taxes assessed on taconite railroads, unmined taconite ore, auxiliary mining lands, unmined natural ore and severed mineral interests.

Taxes on Other Minerals

Taxes on minerals other than taconite or iron, such as gold, silver, copper, nickel, lead and other nonferrous minerals are explained on pages 53–55.

Figure 1

Iron Ore Production Comparison

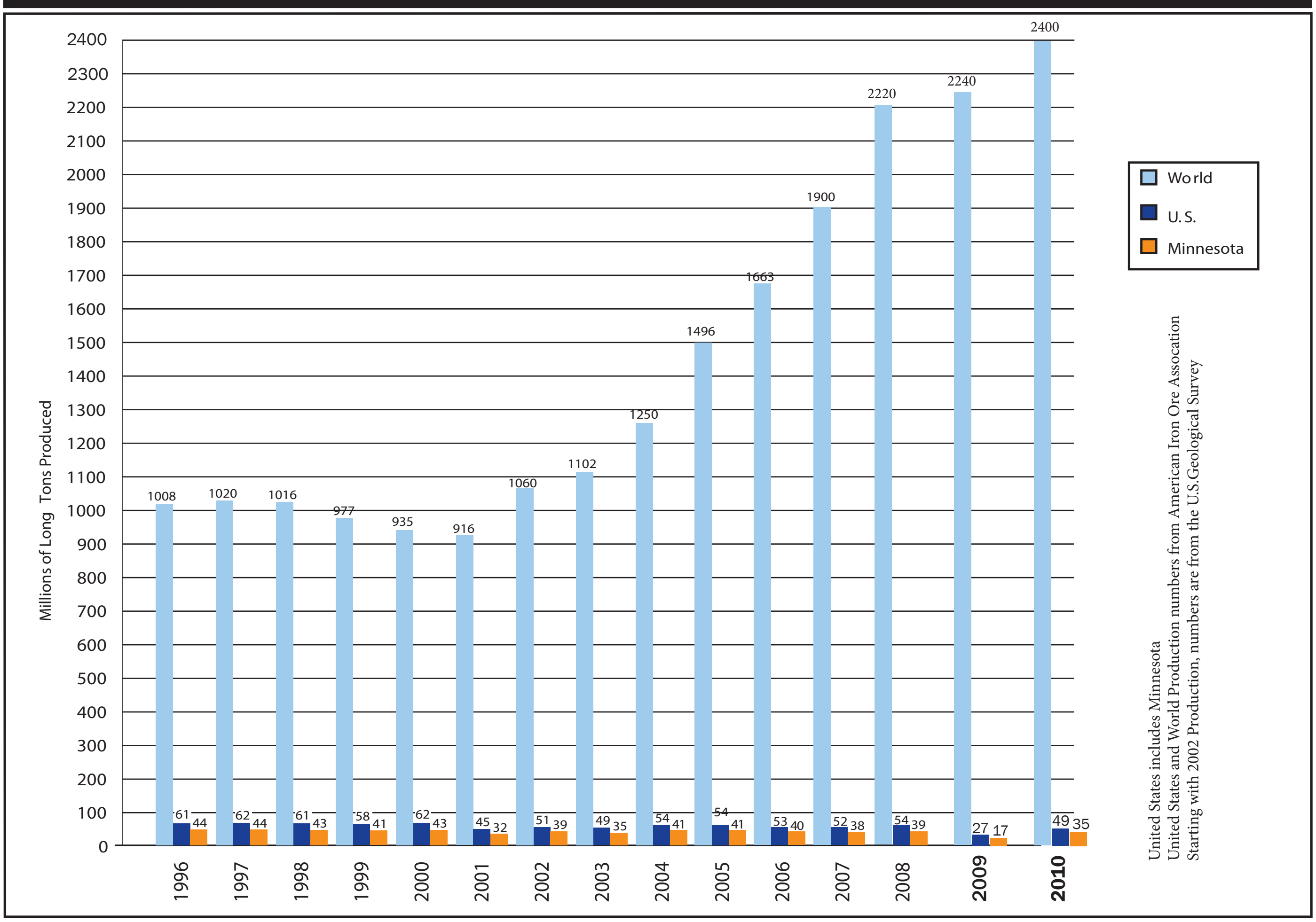
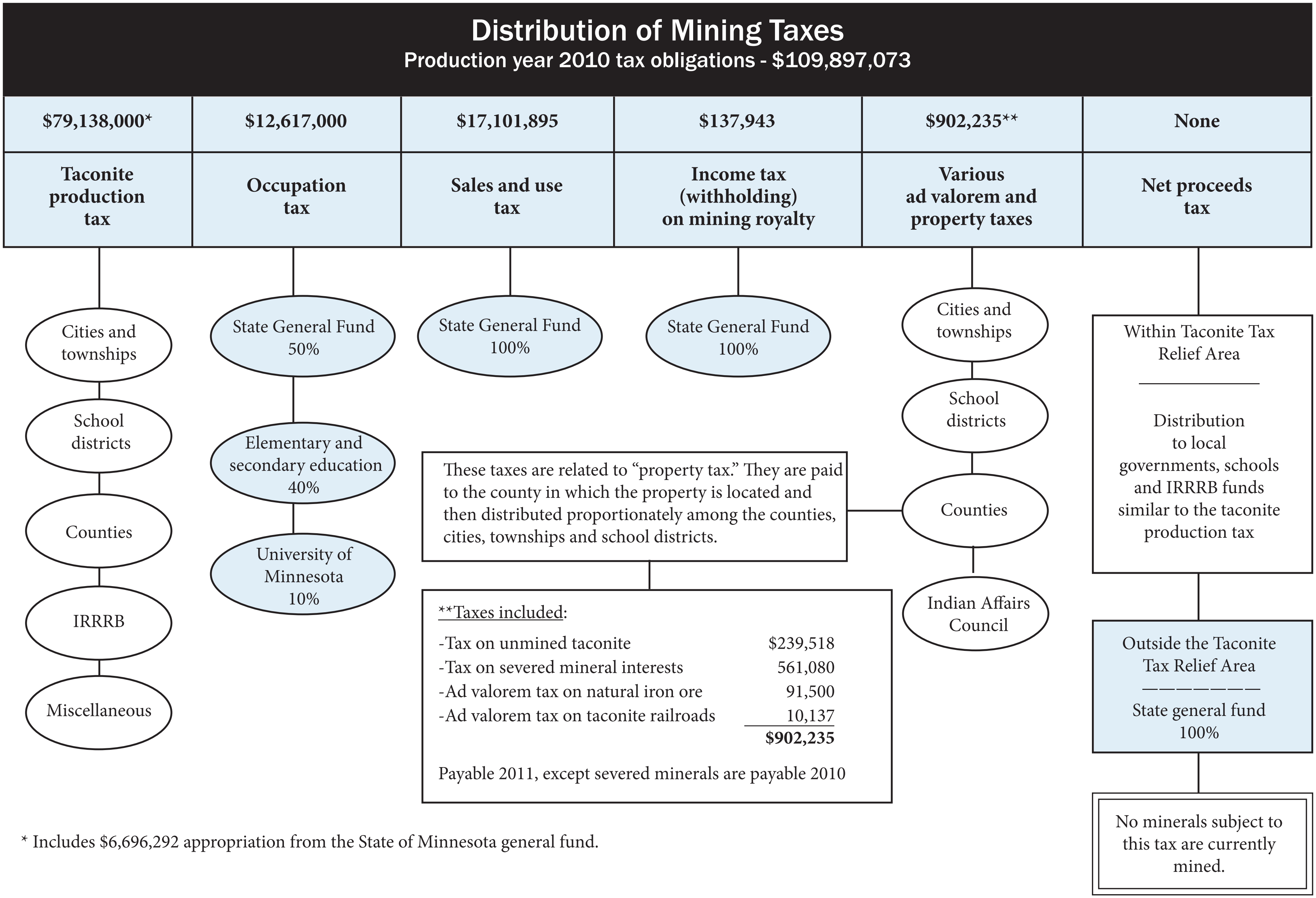


Figure 2



* Includes $6,696,292 appropriation from the State of Minnesota general fund.

Figure 3

History of Minnesota Taconite Production

Year	Butler	Eveleth	Hibbing	Inland	Erie	National	Reserve	Minntac	Total
1950-54	–	–	–	–	740,136	–	587,134	546,563	1,873,833
1955-59	–	–	–	–	7,957,973	–	18,918,638	3,297,821	30,174,432
1960-61	–	–	–	–	13,916,868	–	11,098,864	1,561,278	26,577,010
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	52,826	–	–	8,039,657	–	10,023,520	877,459	19,004,162
1966	70	1,536,370	–	–	8,551,944	–	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	–	–	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	–	–	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	–	–	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	–	–	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	–	–	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	–	–	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	–	–	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	–	–	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	–	–	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	–	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
					LTV				
1987	–	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	Closed	7,668,870	32,043,049
1988	–	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	–	11,848,960	39,485,232
1989	–	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	–	11,846,319	39,330,197
							Cyprus/ Northshore		
1990	–	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	–	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	–	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	–	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	–	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
							Northshore/CCI		
1995	–	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	–	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	–	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
1998	–	4,773,026	7,608,548	2,550,795	6,657,167	5,260,207	4,182,872	13,291,377	44,323,992
1999	–	4,342,770	6,623,571	2,658,663	6,593,497	5,225,632	3,678,803	12,169,971	41,292,907
2000	–	3,850,443	8,008,869	2,698,927	7,305,807	5,459,565	4,075,170	13,561,035	44,959,816
2001	–	4,159,792	5,891,288	2,629,420	69,209	4,371,589	2,648,289	11,858,907	31,628,494
2002	–	4,204,799	7,408,541	2,661,129	–	5,463,637	3,979,283	13,794,178	37,511,567
		United Taconite				**Keewatin Taconite**			
2003	–	1,630,242	7,769,999	2,657,673	–	4,376,891	4,683,657	13,231,018	34,349,480
2004	–	4,030,871	8,101,948	2,693,971	–	5,343,915	4,912,594	14,327,728	39,411,027
2005	–	4,836,140	8,147,611	2,558,197	–	5,196,512	4,799,887	13,996,412	39,534,759
				Mittal Steel USA					
2006	–	4,207,096	8,125,923	2,707,562	–	5,234,336	4,970,526	13,702,701	38,948,144
				ArcelorMittal					
2007	–	5,278,708	7,265,682	2,495,201	–	5,220,394	4,975,108	12,750,828	37,985,921
2008	–	4,986,395	8,058,366	2,571,803	–	4,663,703	5,299,304	13,588,239	39,167,810
2009	_	3,777,486	1,693,512	1,364,783	_	74,680	3,081,289	7,087,356	17,079,106
2010	–	5,028,482	5,697,457	2,604,162	–	4,883,724	4,599,796	12,226,427	35,040,048
Totals	40,125,707	166,922,901	232,058,131	76,375,071	323,555,072	167,013,467	301,029,206	491,241,263	**1,798,320,818**

Numbers after 1986 do not include flux. Beginning with 1990, all weights are dry. Taconite production tax report tonnages are used.

Figure 4

Minnesota Taxes Levied on Taconite

Production year(s)	Unmined taconite tax	Use tax (net)[1]	Production tax	Occupation tax[2]	Royalty tax[3]	School bonds	Railroad gross earnings tax[4]	Total taxes	Total tons produced[5]	Total taxes per ton
1951-55	–	–	$178,523	–	$57,671	$122,625	$11,083	$369,902	N/A	N/A
1956-60	–	–	2,457,832	$1,046,907	1,730,615	6,410,394	2,570,566	14,216,314	42,259,000	$.34
1961-65	–	–	4,884,757	6,830,282	1,926,246	8,372,662	5,843,668	27,857,615	81,923,000	.34
1966-70	$64,000	–	12,558,526	10,726,680	3,519,487	7,518,661	7,982,248	42,369,602	145,015,000	.29
1971-75	64,000	$7,214,111	65,013,384	44,909,601	9,262,076	3,841,750	12,321,573	142,626,495	192,013,000	.74
1976-80	471,966	45,967,313	324,497,931	78,350,978	18,142,273	852,437	14,733,733	483,016,631	214,883,632	2.25
1981-85	1,573,792	36,976,524	376,270,806	63,263,212	20,447,300	2,740,712	10,904,721	512,177,067	166,940,177	3.07
1986-90	1,850,555	42,451,323	308,322,812	16,989,611	9,581,602	3,935,120	4,739,807	388,084,052	178,831,169	2.21
1991	349,551	11,385,280	82,411,317	2,007,906	–	994,841	263,692	97,412,587	39,921,950	2.44
1992	355,596	11,255,028	82,035,382	1,551,335	–	1,010,205	139,193	96,346,739	38,849,871	2.48
1993	352,119	11,663,161	80,195,972	1,708,731	–	1,020,631	143,079	95,411,832	39,850,287	2.39
1994	488,176	13,136,780	81,500,355	2,301,596	–	917,810	140,841	98,485,558	41,676,909	2.36
1995	467,946	14,494,154	85,704,654	3,158,565	–	925,112	233,034	104,983,465	45,001,184	2.33
1996	455,792	11,980,487	90,512,836	2,460,000	–	612,273	123,682	106,145,070	43,873,638	2.42
1997	444,630	11,920,451	94,704,666	2,508,206	–	705,767	122,694	110,406,414	44,815,648	2.46
1998	402,543	8,186,527	94,268,103	2,121,421	–	659,039	121,413	105,759,046	44,323,992	2.39
1999	401,764	4,412,174	93,063,942	2,225,000	–	–	116,326	100,219,206	41,292,907	2.43
2000	397,428	6,131,394	94,540,947*	2,183,000	–	–	108,262	103,361,031	44,959,816	2.30
2001	316,140	(1,652,702)	72,842,808*	56,153	–	–	71,861	71,634,260	31,628,494	2.26
2002	317,033	844,287	74,814,128*	1,340,700	–	–	24,636	77,340,784	37,511,567	2.06
2003	300,173	1,197,577	72,497,652*	1,441,500	–	–	20,483	75,457,385	34,349,480	2.20
2004	273,601	8,514,814	79,262,806*	5,659,500	–	–	17,208	93,727,929	39,411,027	2.38
2005	261,687	7,825,884	78,544,450	6,650,000	–	–	14,287	93,206,308	39,534,759	2.36
2006	532,102	8,744,868	84,451,384	7,736,000	–	–	13,135	101,477,489	38,948,144	2.61
2007	495,033	6,603,598	85,644,627	10,358,000	–	–	12,275	103,113,533	37,985,921	2.71
2008	466,991	9,554,673	89,630,648	23,388,181	–	–	8,977	123,049,470	39,167,810	3.14
2009	238,274	(2,835,766)	74,255,473	340,000	–	–	9,612	72,007,593	17,079,106	4.22
2010	239,518	17,101,895	72,441,708	12,617,000	–	–	10,137	102,410,258	35,122,570**	2.92

Taxes often levied (assessed) for one year and paid in the following year
1. Total use tax less total refunds paid after 1990, see *Figure 33.*
2. Amount Paid (unaudited).Does not include adjustments.
3. Repealed effective after December 31, 1989.
4. Repealed effective after December 31, 1988. Beginning with payable 1990, taconite railroads were taxed on an ad valorem basis.
5. Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.

* Full amount of tax levied. Does not include bankruptcy adjustments.

** Includes 73,817 tons produced by Mesabi Nugget but not taxed under production tax.

Taconite Production Tax

(M.S. 298.24, 298.27 and 298.28)

Definition

The taconite production tax is a severance tax paid on concentrates or pellets produced by the taconite companies. It is paid in lieu of ad valorem (property) taxes on taconite and lands containing taconite. Land and structures used in the production of taconite are also excluded from property tax, with some exceptions (see pages 46 and 47). Electric power plants principally devoted to the generation of power for taconite mining and concentrating are considered to be used in the production of taconite (or direct reduced ore) and are covered by the *in lieu exemption* for property taxes. If part of the power is used for other purposes, that proportion of the power plant is subject to the general property tax. The power plant must be owned by a company subject to production tax to qualify for the exemptions.

Tax Rate

The taconite production tax rate for any given year is determined by multiplying the prior year's rate by the percentage change in the Gross Domestic Product Implicit Price Deflator (GDPIPD) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The U.S. Department of Commerce publishes the GDPIPD monthly in Survey of Current Business. This escalator takes effect each year unless the rate is frozen or changed by the Minnesota State Legislature. The tax rate for the 2010 production year was $2.380 per taxable ton. For concentrates produced in 2011, the rate will be $2.412 per taxable ton.

Taxable Tons

The production tax is levied on taxable tons, which are the average tons produced during the current year and the previous two production years. This eliminates the peaks and valleys of tax payments by the taconite producers and distribution to the tax recipients. The result is a more stable tax base resembling a property tax. The tax for a producer of other iron bearing material is based on the current year production.

Distribution

Under Minnesota law, production tax revenues are distributed to various cities, townships, counties and school districts within the Taconite Assistance Area. This is an area comprising the present taconite mining areas plus areas where natural ore was formerly mined.

Funds are also allocated to the Iron Range Resources & Rehabilitation Board (IRRRB), which administers the Taconite Environmental Protection Fund, the Douglas J. Johnson Economic Protection Trust Fund, the Taconite Economic Development Fund (sometimes referred to as the Investment Tax Credit), the Taconite Assistance Program and other loan and grant programs for both the range cities and townships and the taconite industry. More information about the IRRRB can be found on pages 25 - 29.

Payment Dates and Method

For taxes payable in 2004 and thereafter, the payments are due 50 percent on February 24 and 50 percent on August 24. If the 24th falls on a weekend or holiday, the payment date is the next regular work day. The Department of Revenue must notify each taconite producer of its tax obligation for the year by February 15.

Each producer must make payments to six counties and the IRRRB on or before the due date. Payments are made to Aitkin, Cook, Crow Wing, Itasca, Lake and St. Louis Counties, and to the IRRRB. The county auditors then make payments to cities, townships, school districts and other recipients.

Producer Grant and Loan Fund (M.S. 298.2961)

The producer grant program was renewed by the 2005 legislature. The amount allocated is 5 cents per ton (cpt) plus the revenue generated by the tax rate increase for the 2004 production year. The 2005 distribution was entirely allocated to the City of Virginia for a steam-heating system. The 2006 distribution was allocated to the cities of Hibbing and Virginia public utilities for biomass conversion. The 2007 distribution was allocated to the City of Tower for the East Two Rivers project. For distributions in 2008, the first $2 million was allocated to St. Louis County for the relocation of St. Louis County Road 715. The remainder of the 2008 distributions was paid to St. Louis County for a grant to the city of Virginia for connecting sewer and water lines to the St. Louis County maintenance garage on Highway 135, further extending the lines to interconnect with the city of Gilbert's sewer and water lines. The amounts in 2009 and later are allocated for projects under the Taconite Area Environmental Protection Fund.

Taconite Economic Development Fund (M.S. 298.227)

The Taconite Economic Development Fund (TEDF) was first created for production years 1992 and 1993 at a rate of 10.4 cents per taxable ton.

No distribution is made under the TEDF in any year in which total industry production falls below 30 million tons. Any portion of the TEDF fund not released within one year of deposit is divided, with two-thirds to the Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. To date, all funds have been approved and released to the taconite producers before the deadline expiration. The 2001 legislature made the TEDF permanent at 30.1 cpt for distributions in 2002 and thereafter. The first 15.4 cents (of the 30.1 cents) does not require a matching investment by the company. A matching expenditure of at least 50 percent is required to qualify for the additional 14.7 cents per ton (above 15.4 cents).

In addition: "If a producer uses money from the fund to procure haulage trucks, mobile equipment, or mining shovels, and the producer removes the piece of equipment from the taconite tax relief area defined in section 273.134 within ten years from the date of receipt of the money from the fund, a portion of the money granted from the fund must be repaid to the taconite economic development fund. The portion of the money to be repaid is 100 percent of the grant if the equipment is removed from the taconite tax relief area within 12 months after receipt of the money from the fund, declining by ten percent for each of the subsequent nine years during which the equipment remains within the taconite tax relief area."

Each producer has two potential sources of TEDF money:

1. **Acid or fluxed pellets:** The production tax amount credited to each producer's share of the Taconite Economic Development Fund is 30.1 cpt.
2. **Pellet chips and fines:** This remains the same as last year—an amount equal to 50 percent of the tax for pellet chips and fines sold not exceeding 5/16 inch is allocated to each company's share of the Taconite Economic Development Fund. The total amount may not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is based on current production year **sales** of chips, fines and concentrate—not the three-year average of production. Sales of crushed pellets *do not* qualify for this credit. [M.S. 298.28, subd. 9a(b).]

Therefore, each company is eligible to receive 30.1 cents per taxable ton plus an additional amount based on current year tons of chips and fines sold. A list of TEDF-funded projects and yearly distributions is shown in *Figure 21*.

Fluxed Pellets
Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. Two companies, Minorca and USS, produce fluxed pellets, although all have experimented with them. United Taconite, Hibbing Taconite, Keewatin Taconite and Northshore are producing a partially fluxed pellet containing a low percentage of limestone additives.

M.S. 298.24, subd. 1(f) allows the weight of flux added to be subtracted from the pellet weight 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 in 1988 (1987 production year), a flux credit was allowed against production tax.

Occupation tax is based on iron units and uses the full weight including flux.

Pellet Weighing
Pellet tonnages are reported on a dry weight basis. This began with the 1990 production year.

Definition of Taconite Tax Relief Area
One common prerequisite exists for all taconite aids and grants; the recipient must be within the geographic confines of the Taconite Tax Relief Area or the Taconite Assistance Area. This is defined by state laws (M.S. 273.134 and M.S. 273.1341) as follows:

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

(1) It is a school district 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 whose boundaries are within 20 miles of a taconite mine or plant; or

(2) It is a school district in which, on Jan. 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.

Definition of Taconite Assistance Area
A "taconite assistance area" means the geographic area that falls within the boundaries of a school district that contains 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. Any area within the Taconite Tax Relief Area is also considered to be within the Taconite Assistance Area.

State Contribution *(M.S. 298.28)*
The commissioner of revenue shall determine a state aid amount equal to a tax of 33 cents per taxable ton of iron ore concentrates for production year 2001 and 22 cents per taxable ton of iron ore concentrates for production years 2002 and thereafter. There is appropriated from the general fund to the commissioner an amount equal to the state aid determined under this section. It must be distributed under M.S. 298.28, as if the aid were production tax revenues.

2011 Legislation

Taconite Production Tax
For 2011 production and future years, if there are excess distributions from the 3.43 cent, 15.72 cent, and taconite railroad school funds after covering the levy reduction in M.S. 126C.48, subd. 8, then the excess money must be distributed to the cities and townships within the school district in the proportion that their taxable net tax capacity within the school district bears to the net tax capacity of the school district for property taxes payable in the year prior to distribution.

Distribution of Funds *(M.S. 298.28)*

Subd. 2 - Taconite Cities and Towns Fund

(a) The Taconite Cities and Towns Fund allocates 4.5 cents per ton to cities and towns where taconite mining and concentrating occur. Fifty percent goes to cities and townships in which mining activity occurs. The remaining 50 percent goes to cities and townships in which concentrating taconite occurs. *Note: This is done on a company-by-company basis.*

If both mining and concentrating take place in a single taxing district, the entire 4.5 cents is allocated there. If mining occurs in more than one city or town, the revenue (1.8 cpt) is divided based on either a percentage of taconite reserves or a four-year production average. Most taconite mines have mining in two or more areas.

If concentrating is split between two or more cities or towns, the revenue (2.7 cpt) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples are Northshore (Babbitt, Beaver Bay Township and Silver Bay), former LTV (Hoyt Lakes and Schroeder Township-LTV powerplant), and United Taconite (Eveleth, Fayal Township, and McDavitt Township). Beaver Bay Township qualifies due to the location of the tailing basin that is part of the concentrating process. Distribution detail is shown in *Figure 10*.

(b) Mining Effects — Four cents per taxable ton is allocated to cities and organized townships affected by mining if their boundaries are within three miles of a taconite mine pit that was actively mined in at least one of the prior three years. If a city or township is located near more than one mine meeting the criteria, it is eligible to receive aid calculated from only the mine producing the largest taxable tonnage. When more than one municipality qualifies for aid based on one company's production, the aid must be apportion ed among the municipalities in proportion to their populations. One-half of the money must be used for infrastructure improvement projects and one-half for projects in which two or more municipalities cooperate.

The IRRRB has provided some guidelines for appropriate use of these mining effects funds:

1. One-half for infrastructure improvement projects:
   - Public buildings - construction or major maintenance; does not include normal cleaning and maintenance or janitorial services
   - Water and sewer systems
   - Streets, sidewalks, roads and bridges
   - Parks and recreational facilities
   - Public trails
   - Does not include mobile equipment
2. One-half for cooperative projects between two or more communities:
   - Parks and recreational facilities
   - Public trails or other community facilities
   - Public services such as recreational activities, law enforcement and fire protection
   - Other joint ventures

Use of mining effects funds is not limited to the above examples. Cooperative projects are not limited to communities that receive a mining effects distribution. For example, community A, which receives mining effects aid, can undertake a project with community B, which does not.

A community should report to the IRRRB by January 15 of the year following the receipt of the mining effects aid. Reports should be submitted to Richard Walsh, Grants Administrator, IRRRB, 4261 Hwy 53 South, P.O. Box 441, Eveleth, MN 55734.

(c) If there are excess distributions from the 3.43 cent, 15.72 cent, and taconite railroad school funds after covering the levy reduction in M.S. 126C.48, subdivision 8, then the excess money must be distributed to the cities and townships within the school district in the proportion that their taxable net tax capacity within the school district bears to the net tax capacity of the school district for property taxes payable in the year prior to distribution.

Subd. 3 - Taconite Municipal Aid Account

(a) The Taconite Municipal Aid account is funded at 12.5 cents per taxable ton. The Kinney-White allocation (par. b) and the 0.3 cent Range Association of Municipalities and Schools (RAMS) allocation in subd. 8 are subtracted from it. The payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. The amount is then reduced according to the percentage aid guarantee provisions in 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, population and fiscal need factors.

The first step in this formula is to determine the *fiscal need factor* (FNF). The FNF is a three-year average of the sum of the local government aid (LGA), local levy and production tax revenues received by the community. Next, the local effort tax capacity rate equals the fiscal need factor per capita (FNFPC) divided by 17. If the FNFPC is greater than 350, the local effort tax capacity rate (LETCR) is 350 divided by 17 plus the excess over 350 divided by 15. The minimum allowable LETCR is 8.16. The final step in this formula is to compute the *distribution index* (DI). The distribution index for a community equals its FNF minus LETCR times the adjusted net tax capacity divided by 100.

$$\text{If FNFPC} \leq 350, \text{LETCR} = \frac{\text{FNFPC}}{17}$$

$$\text{If FNFPC} > 350, \text{LETCR*} = \frac{350}{17} + \frac{(\text{FNFPC} - 350)}{15}$$

$$\text{DI} = (\text{FNF minus LETCR*}) \times \frac{\text{Adjusted Net Tax capacity}}{100}$$

* Minimum allowable LETCR = 8.16

A distribution index is determined for all eligible communities. A percentage is determined by comparing the distribution index of a particular community to the total of distribution indexes for all eligible communities. This percentage is then multiplied by the amount of available municipal aid to determine an amount for each community. Prior to this calculation, the occupation tax grandfather amounts and special aid for the city of Kinney and township of White are subtracted from the total available to the municipal aid fund.

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 subd. 6 (see page 9). The state laws governing municipal aid are M.S. 273.134, 298.28 and 298.282. See *Figure 10* for distribution details.

(b) and (c) - Additional money is allocated to cities and townships if more than 75 percent of the city's assessed valuation consisted of iron ore as of Jan. 2, 1980, or if more than 75 percent of the township's assessed valuation consisted of iron ore on Jan. 2, 1982. The distribution is calculated using certified levies, net tax capacities and population. Currently, only White Township and the city of Kinney qualify.

(d) The Township Fund is funded at 3 cents per ton for townships located entirely within the taconite tax relief area for 2009 distributions. For distributions in 2010 and subsequent years, the 3 cents is escalated in the same proportion as the Implicit Price Deflator as provided in section 298.24 subd. 1. The money is distributed to the townships on a per capita basis with a maximum of $50,000 per township. If a township would receive more than $50,000, the portion that exceeds $50,000 is redistribut ed among the townships under $50,000.

Special Municipal Aid *(M.S. 126C.48, subd. 8)*

Legislation passed in 2002 authorizes some cities and townships to receive aid from money allocated to their school districts for levy reduction to the extent that the levy reductions exceed the school's levy limitations.

Subd. 4 - School Districts

(a) Seventeen and fifteen-hundredths (17.15) cents per taxable ton is allocated under (b) and (c) plus the amount in paragraph (d).

(b) (i) Taconite School Fund (3.43 cents)

A total of 3.43 cents per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating. In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district. The primary crusher, tailings basin and power plant owned by a taconite company are considered part of concentrating. When these are in different school districts from the plant, the hours-worked split is used. See *Figure 11* for distribution details.

(b) (ii) School Building Maintenance Fund

Four cents per taxable ton is allocated to specified school districts, based on proximity to a taconite facility, to be used for building maintenance and repairs. The money allocated from each taconite facility is apportioned among its recipient school districts based on pupil units.

a. Keewatin Taconite proceeds are allocated to the Coleraine and Nashwauk-Keewatin districts.

b. Hibbing Taconite proceeds are allocated to the Chisholm and Hibbing districts.

c. ArcelorMittal and Minntac proceeds are allocated to the Mountain Iron-Buhl, Virginia, Mesabi East and Eveleth-Gilbert districts.

d. Northshore mining proceeds are allocated to the St. Louis County and Lake Superior districts.

e. United Taconite proceeds are allocated to the St. Louis County and Eveleth-Gilbert districts.

This additional money is not subject to the 95 percent levy limitations in M.S. 126C.48, subd. 8.

(c) Regular School Fund (15.72 cents)

A total of 15.72 cents per taxable ton is split among the 15 school districts in the Taconite Relief Area. Each school district receives the amount it was entitled to receive in 1975 from the taconite occupation tax (under M.S. 298.32). This amount may be increased or 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. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. Two cents per ton of this distribution is not subject to the 95 percent levy limitation in M.S. 126C.48, subd. 8. See *Figure 11* for distribution details.

The index is calculated as follows: The pupil units for the prior school year are multiplied by the ratio of the average net tax capacity per pupil unit of all taconite districts to the adjusted net tax capacity per pupil unit of the district. Each district receives the portion of the distribution that its index bears to the sum of the indexes for all taconite school districts.

(d) **Taconite Referendum Fund (21.3 cents)**
The Taconite Referendum Fund (TRF) receives an allocation of 21.3 cents per taxable ton. 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 pupil units used in the computation are the greater of the previous year or the 1983-84 school year units. On July 15, the TRF pays the difference between the local levy and $175 per pupil unit. 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 receiving money from the TRF must reserve the lesser of $25 or the amount received per pupil unit (of the $175 authorized) for early childhood programs or outcome-based learning programs. The commissioner of the Minnesota Department of Education must approve the outcome-based programs.* See Figure 11 for distribution details

(e) Each school district is entitled to receive the amount it received in 1975 under M.S. 298.32 (Occupation Tax Grandfather).

Subd. 5 - Counties

(a) The allocation of 26.05 cents per taxable ton to taconite counties (subject to adjustment by M.S. 298.225) is to be distributed under subd. 5(b) through (d). The amounts listed in (b) and (d) are the statutory amounts prior to any adjustment by M.S. 298.225. See *Figure 13* for distribution details.

(b) **Taconite Counties with Mining or Concentrating**
An amount of 15.525 cents per taxable ton is distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced (split in the same manner as taconite cities and towns), less any amount distributed in subd. 5(c). See *Figure 13* for distribution details.

(c) **Counties - 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 cents per ton (for that company) is distributed to the county in which the power plant is located. *This one cent is not escalated but is subject to M.S. 298.225 adjustment with variable guarantee.* Cook County continues to receive aid based on the former LTV power plant due to the guarantee provided by M.S. 298.225. For the 2010 production year, this amounted to $75,289. The only company whose distribution is affected is the former LTV Steel, due to its power plant location at Taconite Harbor in Cook County. Its one cent per ton distribution for the 1983 base year was figured on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$97,936 (1983 base) x 76.875384% = $75,289

There is also a transfer of $17,318 ({1983 base of $22,528} x 76.875384% to the county fund covered in subdivision 6(b). Therefore, Cook County receives a total of $92,607 ($75,289 + $17,318) due to the LTV power plant.

(d) **Taconite County Road and Bridge**
Each county receives a portion of the aid that is deposited in the County Road and Bridge Fund in the same manner as taconite cities and towns. The basic allocation is 10.525 cents per taxable ton subject to adjustment as in M.S. 298.225. See *Figure 13* for distribution details.

Subd. 6 - Taconite Property Tax Relief

(a) **Taconite Property Tax Relief**
The amount sent to this fund was set by the 2001 legislature at 33.9 cents per taxable ton for the 2002 production year. For the production year 2002 and subsequent years, the fund is subject to indexing by using the Gross Domestic Product Implicit Price Deflator. The indexed amount was 41.57 cents per ton for the 2010 production year. 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 Mesabi and Vermillion ranges located within the taconite relief area. The properties receiving this credit are owner-occupied homes and owner-occupied farms. The tax on all the land comprising the farm is used in determining the amount of credit for a farm.

If an owner-occupied home or farm is located in a city or town that contained at least 40 percent of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the tax, up to a maximum credit of $315.10 for taxes payable in 2011.

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, up to a maximum credit of $289.80.

The total amount of taconite property tax relief paid in each county and school district is listed in *Figure 7*. An example of the calculation is shown in *Figure 8*.

State laws 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 is guaranteed by the Northeast Minnesota Economic Protection Fund as stated in M.S. 298.293.

b) **Electric Power Plant Aid from Property Tax Relief**
For any electric power plant located in another county, as described in subdivision 5(c), 0.1875 cent per taxable ton (cpt) from the Taconite Property Tax Relief account is paid to the county. The distribution is subject to the M.S. 298.225 variable guarantee. For the 2010 production year, $17,318 was distributed, with the entire amount coming from the M.S. 298.225 guarantee. See calculation details on page 9 under subdivision 5(c), Counties–Electric Power Plant.

(c) **Electric Power Plant Aid from Property Tax Relief**
This subdivision allocates 0.4541 cent per LTV's taxable tonnage to the Cook County school district due to LTV's power plant in Cook County. The distribution is subject to the M.S. 298.225 guarantee at 31.2 percent or the variable rate, whichever is less. For the 2010 production year, $21,087 was distributed. This is calculated by multiplying the 1983 base of $67,586 x .312 = $21,087.

Subd. 7 — Iron Range Resources & Rehabilitation Board

An amount of 6.5 cents per taxable ton escalated by the Gross Domestic Product Implicit Price Deflator is allocated to the IRRRB (subject to M.S. 298.225 guarantee). The funds are used by the IRRRB for general operating expenses and community development grants.

Subd. 8 — Range Association of Municipalities & Schools

An amount equal to 0.3 cent per taxable ton (subject to M.S. 298.225 guarantee) is paid to the Range Association of Municipalities and Schools (RAMS) to provide an area-wide approach to problems that demand coordinated and cooperative actions. All cities, towns and schools in the taconite and iron ore mining area are included. This amount is subtracted from the Taconite Municipal Aid distribution in subdivision 3.

Subd. 9 — Douglas J. Johnson Economic Protection Trust Fund

In addition to the amount provided in the remainder after all other distributions are completed, 3.35 cents per taxable ton is allocated to the Douglas J. Johnson Economic Protection Trust Fund for production year 1998 and thereafter.

(9a) **Taconite Economic Development Fund**
This subdivision is explained in detail on pages 26 and 28.

(9b) **Taconite Environmental Fund**
Five cents per taxable ton must be paid to the taconite environmental fund for use under M.S. 298.2961, subd. 4 (see description on page 5)

(9c) **Temporary Distribution; City of Eveleth**
For distributions in 2007 through 2011 only, the City of Eveleth shall receive 0.20 cents per taxable ton for support of the Hockey Hall of Fame provided that an equal amount of donations have been received. Any amount of the 0.20 cent per ton that exceeds the donations shall be distributed to the IRRRB.

(9d) **Iron Range Higher Education Account**
Five cents per taxable ton must be allocated to the IRRRB to be deposited in the Iron Range higher education account to be used for higher education programs conducted at educational institutions in the taconite assistance area defined in M.S. 273.1341. The Iron Range Higher Education committee under M.S. 298.2214 and the IRRRB must approve all expenditures from the account.

Subd. 10 — Indexing

Beginning with distribution in 2000 (1999 production year), the amounts determined under subdivision 6(a), subdivision 7 and subdivision 9 are increased in the same proportion as the increase in the implicit price deflator as provided in M.S. 298.24, subd. 1.

Subd. 11— Remainder

(a) After distributing all other aid, including school bond credits and payments, taconite railroad, and IRRRB payments, the remainder is distributed two-thirds to the Taconite Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. The remainder includes interest earned on money on deposit by the counties. The amounts in (b) and (c) are taken from the initial amount prior to making the distribution to the two funds.

(b) **Taconite Railroad**
Until 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent to cities or towns, 22 percent to the county, and 6 percent to the state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed in 2008 was $2,482,454. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225 and so remain constant from year to year. Beginning with the 2002 production year, the taconite railroad distribution to schools was reduced to 62 percent of the 1977 amount.

(c) **Occupation Tax Grandfather Amount to IRRRB**
In 1978 and each year thereafter, the amount distributed to the IRRRB was the same as it received in 1977 from the distribution of the taconite and iron ore occupation taxes: $1,252,520.

Additional Payments

Although the following payments are not included in M.S. 298.28 or its subdivisions, they are subtracted prior to dividing the remainder described in subdivision 11.

These payments are listed in detail on page 19 and consist of school bond payments to school districts within the taconite tax relief area and taconite assistance area. Most are funded 80 percent taconite and 20 percent local efforts.

In Laws 2005, Chapter 152, Article 1, Sec. 39, the legislature authorized the Commissioner of IRRRB to issue $15 million in revenue bonds to make grants to school districts in the taconite relief area or taconite assistance area. The bonds are to be used by the school districts to pay for health, safety and maintenance improvements. The bonds are funded in equal shares from the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Fund. Minor amendments were made by the 2006 legislature.

Aid Guarantee (M.S. 298.225)

The recipients of the taconite production tax, provided in M.S. 298.28, subds. 2 to 5; subd. 6(b) and (c); and subds. 7 and 8, are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 or 1999 production years, provided that production is not less than 42 million taxable tons. If the production is less, the amount distributed from the fund is reduced proportionately by 2 percent per each 1 million tons by which the taxable tons are less than 42 million tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying 2 percent times 2.2 million tons.

This aid guarantee is funded equally from the initial current-year distributions to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. If the initial distributions are insufficient to fund the difference, the commissioner of the IRRRB makes the payments of any remaining difference from the capital of the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust Fund in equal proportions.

The commissioner of the Minnesota Department of Revenue determines the amounts. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—City and Town Fund
2. 12.2 cents—Taconite Municipal Aid
3. 21.3 cents— Taconite Referendum Fund
4. 6.5 cents—escalated to IRRRB
5. 0.3 cent—RAMS
6. 0.1875 cent—power plant transfer from Taconite Property Tax Relief Account to Cook County
7. 4.0 cents - Mining Effects Fund (uses 1999 production year as base year)

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

1. 15.525 cents—Taconite County Fund
2. 10.525 cents—Taconite County Road and Bridge Fund

The following funds are guaranteed at 31.2 percent or the variable guarantee, whichever is less:

1. 15.72 cents—Regular School Fund
2. 3.43 cents—Taconite School Fund
3. 0.5625 cent—power plant transfer from Taconite Property Tax Relief Account to School District 166, Cook County

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

Taconite Production Tax Distribution Calculation

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing and Aitkin) and the IRRRB. Each county auditor is responsible for making the taconite aid payments to the various 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 counties. The State of Minnesota also made a payment of $0.22 cents per taxable ton (payable 2011). This money was added to the amount available for distribution.

The Minnesota Department of Revenue makes all computations regarding the amount paid by the companies, state and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds are remitted by the counties to the IRRRB.

The proceeds of the 2010 taconite production tax (payable 2011) are distributed by state law as follows (*all figures are cents per taxable ton*):

M.S. 298.28 – Payment recipients		**Cents per ton**
Subd. 2a	Taconite cities and towns	4.5
Subd. 2b	Taconite cities and towns (mining effects)	4.0
Subd. 3	Taconite municipal aid account	12.2
Subd. 3(d)	Township Fund	3.0*
Subd. 4	School districts	
	(b) (i) Taconite schools (mining and/or concentrating in the district)	3.43
	(b) (ii) School Buildings Maintenance Fund	4.0
	(c) School districts within the taconite relief area (distributed by formula)	15.72
	(d) Taconite Referendum Fund	(formula amount - see page 9)
Subd. 5	Counties	
	(b and c) Taconite counties (includes electric power plant)	15.525
	(d) Taconite counties road/bridge	10.525
	Counties total:	26.05
Subd. 6	Taconite property tax relief (includes .6416 cents for Cook County and Cook County Schools)	33.9*
Subd. 7	IRRRB	6.5*
Subd. 8	Range Association of Municipalities and Schools	0.3
Subd. 9	Douglas J. Johnson Economic Protection Trust Fund	3.35*
Subd. 9a	Taconite Economic Development Fund	30.1
Subd. 9b	Taconite Environmental Fund for use in Producer Grant & Loan Fund	5.0**
Subd. 9c	City of Eveleth (for Hockey Hall of Fame)	0.2***
Subd. 9d	Iron Range Higher Education Account	5.0
Subd. 10	Indexing provisions	-
Subd. 11	Distribution of remainder	-

* These funds are escalated using the Gross Domestic Product Implicit Price Deflator. After escalation, the cents per ton for Township fund was 3.08 cents, Taconite Property Tax Relief was 41.57 cents, IRRRB was 8.30 cents, and the Northeastern Minnesota Economic Protection Fund was 4.21 cents.

** Plus amount of revenue due to tax increase generated in pay 2005.

*** Provided through 2010 production year.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 9.

Figure 5

Douglas J. Johnson Economic Protection Trust Fund and Environmental Protection Fund

Period ending	Douglas J. Johnson Fund balance	Taconite Environmental Fund balance
June 30, 1995	$61,596,404	$4,034,811
June 30, 1996	66,451,967	3,638,011
June 30, 1997	61,901,073	4,440,733
June 30, 1998	67,339,738	4,709,999
June 30, 1999	71,863,771	5,003,671
June 30, 2000	78,602,904	4,632,476
June 30, 2001	81,880,819	3,680,925
June 30, 2002	79,621,545	1,079,868
June 30, 2003	84,572,870	7,868,073
June 30, 2004	86,298,384	6,709,194
June 30, 2005	83,433,221	15,691,497
June 30, 2006	80,394,959	9,234,489
June 30, 2007	84,478,169	9,659,460
June 30, 2008	88,971,850	8,332,921
June 30, 2009	91,327,362	10,849,252
June 30, 2010	95,098,257	17,047,396
June 30, 2011	$83,749,720	$16,816,569

Douglas J. Johnson Fund Major Withdrawals		
Feb. and May, 1987	.46 million	M.S. 298.225
Sept. 26, 1989	1.90 million	Property tax relief guarantee
July 1, 1996	10.00 million	Producer grant program*
July 1, 2001	.10 million	Mining Effects Extension**
Various 2002 & Jan. 2003	2.52 million	M.S. 298.225
Jan. 2002	5.00 million	Mesabi Nugget Pilot Plant (Silver Bay)
Sept. 2004	5.00 million	Loan to Mesabi Nugget (Hoyt Lakes)
Dec. 2004	3.00 million	Loan to MN Steel Industries
Feb. 2006	6.49 million	Loan to Mesabi Nugget (LTV Lands)
May 2009	6.04 million	Mesabi Nuggett Loan repayment/transfer M.S. 298.2931 & M.S. 298.223 subd 1(6)
Oct. 2010	8.70 million	Redemption of Giants Ridge Revenue Bonds
June 2011	4.00 million	Loan to PolyMet Mining

* 1996 M.S. 298.2961

** Section 20 of 2001 legislation amended M.S. 298.225 (aid guarantees) to extend payments for certain cities and townships.

The Taconite Area Environmental Protection Fund (TEPF), M.S. 298.223 and the Douglas J. Johnson Economic Protection Trust Fund (DJJ), formerly known as Northeast Minnesota Economic Protection Trust Fund, M.S. 298.291 through 298.294, were established by the 1977 Legislature. These two funds receive the remainder of the production tax revenues after all distributions are made according to M.S. 298.28. The remainder is split with one-third going to the DJJ and two-thirds to the TEPF.

The TEPF was *created for the purpose of reclaiming, restoring and enhancing those areas of Minnesota that are adversely affected by environmentally damaging operations involved in mining and producing taconite and iron ore concentrate.* The scope of activities includes local economic development projects. The IRRRB commissioner administers the fund. The IRRRB and the governor must approve projects.

The DJJ is somewhat different in that only interest and dividends earned by the fund may be spent before January 1, 2028. Expenditures from the principal may be made with approval from the IRRRB for economic development projects.

Taconite Property Tax Relief

The taconite homestead credits described on page 9 are administered by the county auditors. The amounts payable in 2010 are listed in *Figure 7* below. Distribution is determined by the formula described on page 15. The amounts do not equal the total production tax allocated for property tax relief shown in the tables as collections or payments. 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 Douglas J. Johnson Economic Protection Fund. The last time this occurred was in 1989.

Figure 6

Taconite Property Tax Relief Fund Balance

Year payable	Payments into account[1]	Interest & other	Payments out (by formula)	Balance December 31
1998	$13,555,273	$1,416,146	$11,269,163	$22,535,047
1999	16,237,808	1,379,053	14,867,173	25,284,735
2000	16,078,849	2,040,283	15,041,042	28,362,825
2001	13,850,869	2,488,790	15,339,725	29,362,759
2002	10,293,022	5,552,323[2]	23,950,183[3]	19,209,484
2003	10,835,555	415,669	11,300,470	19,160,238
2004	16,119,076[4]	412,123	11,257,422	24,434,015
2005	13,567,734[4]	398,393	11,254,494	27,145,288
2006	14,449,177[4]	941,169	11,400,696	31,134,938
2007	14,753,800	1,336,342	22,435,332[5]	24,789,748
2008	16,347,135[4]	1,545,680	19,931,625[6]	22,750,938
2009	9,770,711	520,872	11,506,130	21,536,391
2010	12,468,249	331,000	20,231,000	14,105,000
2011 est.	11,846,794			

[1] Listed under year payable; therefore, 2007 payments result from 2006 production.
[2] Includes reimbursement from state for overpayment in Aitkin, Crosby-Ironton and Grand Rapids School Districts.
[3] $10,857,566 of Special Municipal aid was also paid out of homestead credit funds as a one-time payment.
[4] Includes $4,940,000 from National bankruptcy settlement in 2004 & $49,173 from United Taconite in 2005, $729,423 from LTV in 2006, $1,312,081 from EVTAC in 2008 and $36,324 from EVTAC in 2009.
[5] Includes $10,887,059 in public works and local economic development projects.
[6] Includes $4,323,954 in public works and local economic development projects.
[7] Includes $9,032,845 in public works and local economic development projects.

Figure 7

Taconite Property Tax Relief Fund Distribution

Total listed by school district

School district	Mobile home	Real property
166 - Cook County	$65	$490,878
316 - Coleraine	2,618	845,421
319 - Nashwauk-Keewatin	1,461	415,710
381 - Lake Superior	901	1,411,257
695 - Chisholm	75	604,275
696 - Ely	664	567,086
701 - Hibbing	5,806	1,795,477
706 - Virginia	621	1,041,522
712 - Mt. Iron-Buhl	3,625	477,167
2142 - St. Louis County	1,844	1,927,680
2154 - Eveleth-Gilbert	590	924,526
2711 - Mesabi East	1,247	917,292
Total (Payable 2010)	**$19,517**	**$11,418,291**

Total listed by county

County	Mobile home	Real property	Grand total
(69) St. Louis	$14,813	$8,511,901	**$8,526,714**
(31) Itasca	4,079	1,261,131	**1,265,210**
(38) Lake	560	1,151,182	**1,151,742**
(16) Cook	65	490,878	**490,943**
(36) Koochiching	0	3,199	**3,199**
Total: (Payable 2010)	**$19,517**	**$11,418,291**	**$11,437,808**

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

The supplemental property tax relief paid from the State General Fund revenue to the Deer River (Itasca Co.), Floodwood (St. Louis Co.), Aitkin, Crosby-Ironton and Grand Rapids school districts is not included in any of the production tax tables.

The aid amounts in Figures 10, 11 and 13 do not include taconite property tax relief.

Figure 8

Taconite Residential Homestead Credit Examples

Taxes payable 2011

Gross tax computation	**66% Example 1**	**66% Example 2**
1. Total Market Value	$50,000.00	$100,000.00
2. Net Tax Capacity	$500.00	$1,000.00
3. Local Tax Rate	130.000%	130.000%
4. Net Tax Capacity Tax (2 x 3)	$650.00	$1,300.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$47.50	$95.00
7. Total Gross Tax (4 + 6)	$697.50	$1,395.00
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1 x 0.40%)	$200.00	$304.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$21.60
c) Final Credit (8a-8b)	$200.00	$282.40
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$497.50	$1,112.60
10. Taconite Credit (9 x 66%, $315.10 maximum)	$315.10	$315.10
11. Net Tax (9 - 10)	$182.40	$797.50

Gross tax computation	**57% Example 1**	**57% Example 2**
1. Total Market Value	$50,000.00	$100,000.00
2. Net Tax Capacity	$500.00	$1,000.00
3. Local Tax Rate	130.000%	130.000%
4. Net Tax Capacity Tax (2 x 3)	$650.00	$1,300.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$47.50	$95.00
7. Total Gross Tax (4 + 6)	$697.50	$1,395.00
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1 x 0.40%)	$200.00	$304.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$21.60
c) Final Credit (8a-8b)	$200.00	$282.40
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$497.50	$1,112.60
10. Taconite Credit (9 x 57%, $289.80 maximum)	$283.58	$289.80
11. Net Tax (9-10)	$213.92	$822.80

Figure 9

Taconite Production Tax Distribution*

Production year	2005	2006	2007	2008	2009	2010
City and township	$2,047,900	$2,091,131	$2,053,321	$2,087,203	$1,741,289	1,707,978
Township Fund	–	–	–	1,161,019	961,848	938,421
Taconite municipal aid	6,454,084	6,588,041	6,484,790	6,568,276	5,361,555	5,234,627
M.S. 298.28, Subd 3(b)***	–	–	–	–	49,156	93,382
Mining effects	1,769,593	1,806,224	1,773,075	1,802,316	1,503,108	1,474,603
School district — regular	1,512,883	1,567,083	1,553,181	1,579,632	1,329,597	1,296,216
School district fund	5,928,663	6,134,022	5,932,765	6,939,441	5,823,744	5,670,746
School Building Maintenance Fund	–	–	–	1,548,025	1,256,439	1,217,160
Taconite Levy Shortfall Payment	–	–	–	–	501,635	807,218
Taconite Referendum Fund	4,218,742	3,985,816	3,636,432	3,324,393	3,067,031	2,974,743
County	9,984,746	10,112,692	9,934,767	8,904,372	8,861,655	8,862,567
County road and bridge	2,637,217	2,671,467	2,623,622	4,527,635	3,760,396	3,657,961
Taconite Property Tax Relief	13,719,754	33,269	10,635,240	9,656,986	3,435,404	11,846,794
IRRRB ($.03 Indexed)	3,071,150	3,289,341	3,327,352	3,472,124	2,881,831	2,811,548
Range Association of Municipalities and Schools	104,092	137,886	136,469	139,165	113,697	110,294
Taconite railroad (fixed)	2,482,454	2,482,454	2,482,454	2,482,454	2,482,454	2,482,454
IRRRB (fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
School bond payments	4,767,129	3,747,420	4,265,993	4,360,743	4,119,962	4,021,158
Taconite Environmental Protection Fund	9,417,968	11,537,116	11,003,226	10,280,483	13,200,509	6,386,643
Producer Grant & Loan Fund	3,098,810	3,177,818	3,157,554	3,196,114	2,831,630	2,782,967
Douglas J. Johnson Economic Protection Trust Fund	2,864,404	4,001,532	3,682,303	3,197,366	4,302,341	842,910
IRRRB Educational Revenue Bonds	–	1,415,106	1,411,525	1,410,125	1,407,525	1,408,725
Iron Range Higher Education Acct	–	–	1,896,471	1,935,031	1,570,547	1,521,884
Biomass Energy Project Loan	–	–	3,882,294	–	–	–
Renewable Energy Initiative	–	–	–	5,998,597	–	–
Taconite Economic Development Fund	11,520,660	12,257,357	8,503,411	12,213,126	254,341	9,673,605
Hockey Hall of Fame	–	76,669	75,860	77,401	62,822	60,876
Transfer from schools to cities**	–	11,444	157,095	30,239	0	–
Public Works & Local Economic Development Fund	–	14,720,531	4,323,954	–	9,032,845	–
Total	**$86,852,769**	**$93,096,939**	**$94,185,674**	**$98,144,786**	**$81,165,881**	**$79,138,000**

* The production tax is collected and distributed in the year following production. For example, the 2010 production tax was collected and distributed during 2011.

** This is excess school levy reduction money that will be used to reduce levies of cities and townships within the school district.

***Prior to 2009, this amount was included in the Taconite municipal aid amounts.

Figure 10

Taconite Production Tax Distribution to Cities and Townships – 2011

(Based on 2010 production year tax revenues—not including Taconite Property Tax Relief dollars)

Name	4.5 cent mining & conc.	4.0 cent mining effects	3.0 cent Township fund	Taconite railroad*	Taconite municipal aid	M.S. 298.28 Subd. 3 (b)	Total
COOK COUNTY							
Lutsen Township	–	–	$13,227	–	–	–	**$13,227**
Schroeder Township	$6,828	–	6,047	$47,700	0	–	**60,575**
Tofte Township	–	–	8,093	–	–	–	**8,093**
CROW WING COUNTY							
Crosby	–	–	–	–	200,781	–	**200,781**
Ironton	–	–	–	–	42,154	–	**42,154**
Riverton	–	–	–	–	3,877	–	**3,877**
Trommald	–	–	–	–	2,697	–	**2,697**
Irondale Township	–	–	–	–	20,924	–	**20,924**
Rabbitt Lake Township	–	–	–	–	0	–	**0**
Wolford Township	–	–	–	–	0	–	**0**
ITASCA COUNTY							
Bovey	–	–	–	–	53,212	–	**53,212**
Calumet	–	–	–	–	29,297	–	**29,297**
Cohasset	–	–	–	–	0	–	**0**
Coleraine	–	–	–	–	70,658	–	**70,658**
Keewatin	51,584	55,811	–	–	102,554	–	**209,949**
Marble	–	–	–	–	45,479	–	**45,479**
Nashwauk	11,116	47,459	–	–	86,463	–	**145,038**
Taconite	–	–	–	–	17,979	–	**17,979**
Goodland Township	–	–	15,714	–	–	–	**15,714**
Greenway Township	15,630	–	27,744	–	21,212	–	**64,586**
Iron Range Township	–	–	11,399	–	5,102	–	**16,501**
Lawrence Township	–	–	14,675	–	–	–	**14,675**
Lone Pine Township	4,638	23,077	15,053	–	2,168	–	**44,936**
Nashwauk Township	55,211	33,844	22,075	–	13,113	–	**124,243**
LAKE COUNTY							
Silver Bay	91,371	–	–	152,706	186,044	–	**430,121**
Beaver Bay Township	2,429	–	17,194	12,565	0	–	**32,188**
Crystal Bay Township	–	–	19,556	6,951	–	–	**26,507**
Fall Lake Township	–	–	17,824	–	–	–	**17,824**
Silver Creek Township	–	–	37,191	20,612	–	–	**57,803**
Stony River Township	–	–	5,385	19,943	–	–	**25,328**
ST. LOUIS COUNTY							
Aurora	13,421	67,314	–	–	144,353	–	**225,088**
Babbitt	100,906	169,032	–	166,767	182,148	–	**618,853**
Biwabik	0	21,511	–	–	36,096	–	**57,607**
Buhl	–	32,479	–	–	70,583	–	**103,062**
Chisholm	–	47,555	–	–	433,266	–	**480,821**
Ely	–	–	–	–	261,167	–	**261,167**
Eveleth	62,888	103,745	–	–	365,733	–	**532,366**
Gilbert	21,496	43,667	–	–	166,417	–	**231,580**
Hibbing	341,106	166,793	–	–	1,231,646	–	**1,739,545**
Hoyt Lakes	192,777	72,546	–	152,153	207,461	–	**624,937**
Kinney	10,364	5,489	–	–	25,571	33,525	**74,949**
Leonidas	5,896	1,441	–	–	5,662	–	**12,999**
McKinley	–	2,111	–	–	8,472	–	**10,583**
Mountain Iron	467,173	91,753	–	–	314,618	–	**873,544**
Tower	–	–	–	–	26,274	–	**26,274**
Virginia	42,284	279,612	–	–	718,754	–	**1,040,650**
Alango Township	–	–	7,904	–	–	–	**7,904**
Alborn Township	–	–	11,242	–	–	–	**11,242**
Alden Township	–	–	6,739	–	–	–	**6,739**
Angora Township	–	–	7,683	–	–	–	**7,683**
Ault Township	–	–	3,685	–	–	–	**3,685**

Figure 10

Taconite Production Tax Distribution to Cities and Townships – 2011 (cont.)

(Based on 2010 production year tax revenues—not including Taconite Property Tax Relief dollars)

Name	4.5 cent mining & conc.	4.0 cent mining effects	3.0 cent Township fund	Taconite railroad*	Taconite municipal aid	M.S. 298.28 subd. 3(b)	Total
ST LOUIS COUNTY CONTINUED							
Balkan Township	–	7,891	23,997	–	15,399	–	47,287
Bassett Township	–	4,040	1,197	11,745	–	–	16,982
Beatty Township	–	–	11,746	–	–	–	11,746
Biwabik Township	26,343	19,921	25,256	–	14,515	–	86,035
Breitung Township	–	–	19,619	–	0	–	19,619
Camp 5 Township	–	–	1,858	–	–	–	1,858
Cedar Valley Township	–	–	6,833	–	–	–	6,833
Cherry Township	–	–	26,830	–	–	–	26,830
Clinton Township	–	26,796	28,689	–	–	–	55,485
Colvin Township	–	–	9,448	–	–	–	9,448
Cotton Township	–	–	14,549	–	–	–	14,549
Crane Lake Township	–	–	3,495	–	–	–	3,495
Culver Township	–	–	9,164	–	–	–	9,164
Duluth Township	–	–	50,000	–	–	–	50,000
Eagle's Nest Township	–	–	6,424	–	0	–	6,424
Ellsburg Township	–	–	5,259	–	–	–	5,259
Elmer Township	–	–	4,786	–	–	–	4,786
Embarrass Township	–	–	17,289	–	–	–	17,289
Fairbanks Township	–	–	2,173	–	–	–	2,173
Fayal Township	3,414	51,916	50,000	–	18,804	–	124,134
Field Township	–	–	10,455	–	–	–	10,455
French Township	–	–	17,761	–	–	–	17,761
Great Scott Township	17,027	13,251	12,849	–	11,843	–	54,970
Greenwood Township	–	–	28,090	–	–	–	28,090
Industrial Township	–	–	19,934	–	–	–	19,934
Kabetogama Township	–	–	4,283	–	–	–	4,283
Kelsey Township	–	–	3,527	–	–	–	3,527
Kugler Township	–	–	6,014	–	–	–	6,014
Lavell Township	–	–	10,896	–	–	–	10,896
Leiding Township	–	–	13,605	–	–	–	13,605
Linden Grove Township	–	–	3,968	–	–	–	3,968
McDavitt Township	92,586	–	14,077	–	14,880	–	121,543
Meadowlands Township	–	–	9,385	–	–	–	9,385
Morcom Township	–	–	2,803	–	–	–	2,803
Morse Township	–	–	37,820	–	–	–	37,820
Ness Township	–	–	1,795	–	–	–	1,795
New Independence Twp	–	–	8,125	–	–	–	8,125
Northland Township	–	–	4,125	–	–	–	4,125
Owens Township	–	–	7,716	–	–	–	7,716
Pequaywan Township	–	–	4,031	–	–	–	4,031
Pike Township	–	–	13,730	–	–	–	13,730
Portage Township	–	–	5,416	–	–	–	5,416
Sandy Township	–	–	10,361	–	–	–	10,361
Stoney Brook Township	–	–	7,716	–	–	–	7,716
Sturgeon Township	–	–	3,117	–	–	–	3,117
Toivola Township	–	–	5,385	–	–	–	5,385
Vermillion Lake Twp	–	–	9,290	–	–	–	9,290
Waasa Township	–	11,056	8,849	–	–	–	19,905
White Township	22,435	58,383	46,732	–	50,434	59,857	237,841
Willow Valley Township	–	–	3,905	–	–	–	3,905
Wuori Township	49,055	16,110	15,619	–	6,817	–	87,601
Total	**$1,707,978**	**$1,474,603**	**$938,421**	**$591,142**	**$5,234,627**	**$93,382**	**$10,040,153**

* Fixed amount based on 1977 Taconite railroad gross earnings tax distributions. — Indicates not eligible.

0 Indicates eligible, but no payment at current valuation and production.

Figure 11

Taconite Production Tax Distributions to School Districts - 2011

School districts		$.0343 Taconite School Fund	$.1572 Regular School Fund	Taconite Railroad	$.04 School Bldg Maintenance Fund	$.213 Taconite Referendum	Tax. Levy Replacement Shortfall Paymt*	Total
001	Aitkin	–	$144,173	–	–	$0	$14,589	$158,762
166	Cook County	$21,087	34,328	$264,977	–	0	0	320,392
182	Crosby-Ironton	–	164,510	–	–	0	15,649	180,159
316	Greenway	33,373	528,737	–	$87,511	256,312	65,102	971,035
318	Grand Rapids	–	630,768	–	–	261,840	43,237	935,845
319	Nashwauk-Keewatin	90,994	178,845	–	40,784	112,834	65,678	489,135
381	Lake Superior	71,496	284,579	342,720	73,637	116,056	38,188	926,676
695	Chisholm	–	484,006	–	53,116	206,397	69,014	812,533
696	Ely	–	55,256	–	–	57,293	14,340	126,889
701	Hibbing	210,360	950,706	–	152,875	563,724	252,503	2,130,168
706	Virginia	74,908	575,814	–	171,976	313,585	94,444	1,230,727
712	Mtn. Iron-Buhl	371,682	333,784	–	76,870	199,470	53,526	1,035,332
2142	St. Louis County	147,484	346,560	284,841	220,786	225,644	32,740	1,258,055
2154	Eveleth-Gilbert	91,495	598,086	–	218,515	326,119	48,208	1,282,423
2711	Mesabi East	183,337	360,594	214,397	121,090	335,469	0	1,214,887
Totals		**$1,296,216**	**$5,670,746**	**$1,106,935**	**$1,217,160**	**$2,974,743**	**$807,218**	**$13,073,018**

*Made from Taconite Property Tax Relief Account

Figure 12

Taconite Production Tax School Bond Payments

School districts		Year authorized[1]	Final payment year[2]	Payment[3]	Outstanding balance[4]
166	Cook County[5]	1996	2016	$503,465	$2,684,500
316	Greenway	2000	2019	154,516	1,120,000
318	Grand Rapids	1996	2010	475,730	0
381	Lake Superior	2000	2022	391,821	3,574,112
695	Chisholm	2000	2020	297,738	2,462,717
696	Ely	1996	2015	68,686	300,000
701	Hibbing	1996	2011	212,512	204,000
706	Virginia	1996	2016	795,904	2,161,076
712	Mt. Iron-Buhl	1998	2017	325,308	1,900,000
2154	Eveleth-Gilbert	1996	2017	234,916	1,976,000
2711	Mesabi East	1996	2011	60,562	60,000
2711	Mesabi East	2008	2016	500,000	0
Totals:				$4,021,158	$16,442,405

1 Legislative year in which taconite funding was enacted.
2 Production year from which final bond payment will be deducted.
3 Payments made from 2010 pay 2011 tax distribution
4 Estimated portion of outstanding bond balance to be paid by taconite funds (not including interest).
5 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: Cook County – 1996, 70 percent
Mesabi East – 2008, $500,000

Figure 13

Taconite Production Tax Distribution to Counties - 2011

Production year 2010

(Does not include dollars from taconite property tax relief)

County	Regular county 15.525 cents	Road and bridge 10.525 cents	Taconite railroad	Total
Cook	$ 92,607	–	$187,190	$ 279,797
Itasca	743,128	$ 261,432	–	1,004,560
Lake	624,032	219,386	243,034	1,086,452
St. Louis	7,402,800	3,177,143	354,153	10,934,096
Total	**$8,862,567**	**$3,657,961**	**$784,377**	**$13,304,905**

Figure 14

Taconite Production and Tax Revenue by Company

Production year 2010

Company	Production Tons	Taxable Tonnage*	Production Tax Rate	Tax Assessed
Hibbing Taconite	5,697,457	5,149,778	$2.380	$ 12,256,472
ArcelorMittal	2,604,162	2,180,249	2.380	5,188,993
Magnetation	8,705	8,705	2.380	20,718
Northshore	4,599,796	4,326,796	2.380	10,297,774
USS-Keetac	4,883,724	3,207,369	2.380	7,633,538
USS-Minntac	12,226,427	10,967,341	2.380	26,102,272
United Taconite	5,028,482	4,597,454	2.380	10,941,941
Total	**35,048,753**	**30,437,692**	**$2.380**	**$72,441,708**

* The taxable tonnage is the average production of the current year and previous two years. Magnetation pays on current year only.

Figure 15

2010 Taxable Production by Product Type

	Pellets			Chips and Fines			
Company	**Acid**	**Fluxed**	**Partial fluxed***	**Acid**	**Fluxed and Partial Fluxed***	**Conc.**	**Total**
Hibbing	–	–	5,697,457	–	–	–	5,697,457
ArcelorMittal	–	2,502,296	–	–	101,681	185	2,604,162
Magnetation	–	–	–	–	–	8,705	8,705
Northshore	–	–	4,527,335	–	72,461	–	4,599,796
USS - Keetac	–	–	4,774,534	–	80,309	28,881	4,883,724
USS - Minntac	–	12,202,743	–	–	23,684	–	12,226,427
United Taconite	–	–	4,910,468	–	82,002	36,012	5,028,482
Total:	0	14,705,039	19,909,794	–	360,137	73,783	35,048,753

*Partially fluxed pellets contain less than 2 percent flux.

Figure 16

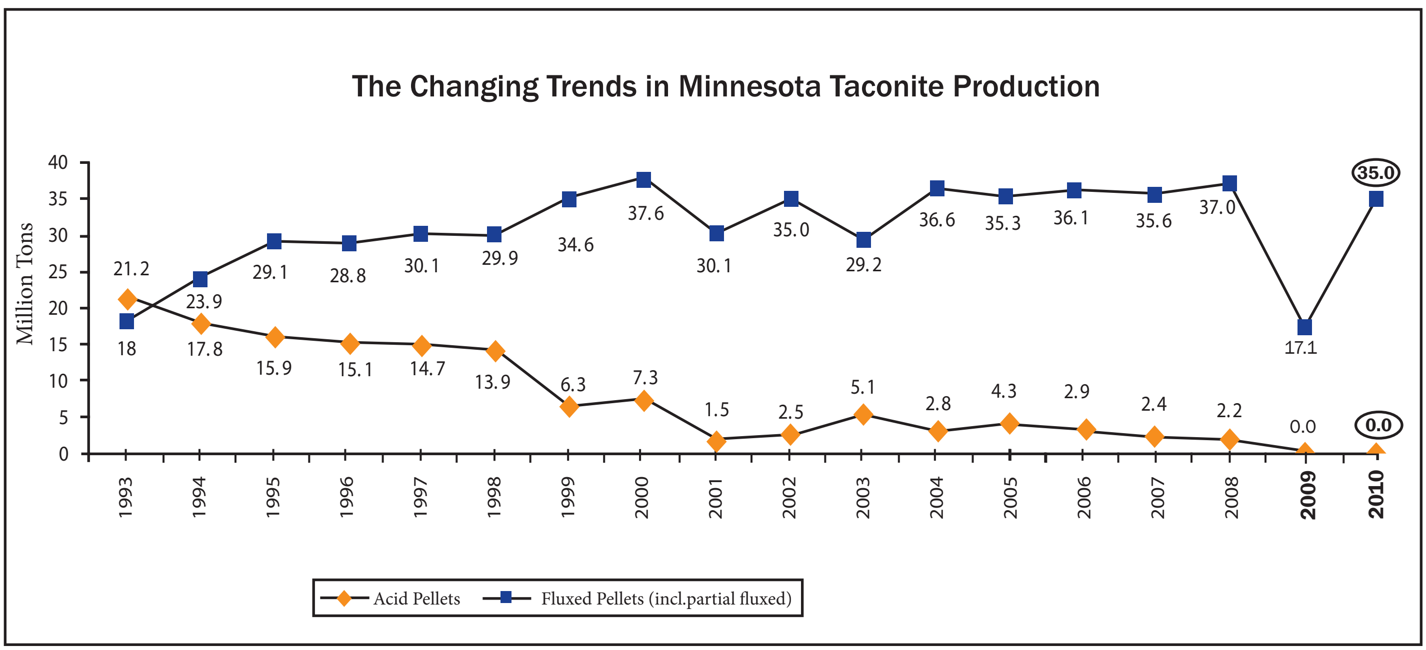


Figure 17

Production Tax Rate
History and Index Summary

Production Year	Statutory	Fe (iron)	Inflation	Total	TEDF	Producer Grants
1941	5.0 cents	0.5 cents	None	5.5 - cents	0	0
1969-70	11.5 cents	0.5 cents	0 (WPI*)	12.0 - cents	0	0
1971	15.5 cents	0.5 cents	0.4 (WPI) cents	16.4 - cents	0	0
1972	18.5 cents	0.5 cents	1.3 (WPI) cents	20.3 - cents	0	0
1973	20.5 cents	1.0 cents	2.8 (WPI) cents	24.3 - cents	0	0
1974	20.5 cents	1.0 cents	8.2 (WPI) cents	29.7 - cents	0	0
1975	60.5 cents	1.0 cents	13.4 (WPI) cents	74.9 - cents	0	0
1976	60.5 cents	1.0 cents	15.5 (WPI) cents	76.5 - cents	0	0
1977	125.0 cents	4.5 cents	0 (SMPI**) cents	129.5 - cents	0	0
1978	125.0 cents	6.0 cents	8.9 (SMPI) cents	139.9 - cents	0	0
1979	125.0 cents	6.0 cents	28.8 (SMPI) cents	159.8 - cents	0	0
1980	125.0 cents	6.0 cents	42.2 (SMPI) cents	173.3 - cents	0	0
1981	125.0 cents	6.0 cents	60.6 (SMPI) cents	191.6 - cents	0	0
1982	125.0 cents	6.0 cents	76.8 (SMPI) cents	207.8 - cents	0	0
1983	125.0 cents	6.0 cents	73.7 (SMPI) cents	204.7 - cents	0	0
1984	125.0 cents	6.0 cents	79.7 (SMPI) cents	210.7 - cents	0	0
1985	125.0 cents	3.0 cents	76.8 (SMPI) cents	204.8 - cents	0	0
1986	190.0 cents	0	Frozen (IPD***)	190.0 - cents	0	0
1987-88	190.0 cents	0	Frozen (IPD)	190.0 - cents	0	0
1989	190.0 cents	0	7.5 (IPD) cents	197.5 - cents	0	0
1990	190.0 cents	0	◆7.5 (IPD) cents	197.5 - cents	0	0
1991	190.0 cents	0	15.4 (IPD) cents	205.4 - cents	0	0
1992	190.0 cents	0	◆15.4 (IPD) cents	205.4 - cents	10.4 cents	0
1993-94	190.0 cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 cents	0
1995	190.0 cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 cents	0
1996	190.0 cents	0	19.4 (IPD) cents	209.4 - cents	20.4 cents	0
1997	190.0 cents	0	24.1 (IPD) cents	214.1 - cents	15.4 cents	5.0 cents
1998-99	190.0 cents	0	24.1 (IPD) cents	214.1 - cents	15.4 cents	5.0 cents
2000	190.0 cents	0	27.3 (IPD) cents	217.3 - cents	15.4 cents	5.0 cents
2001-02	210.3 cents	0	0 (IPD) cents	210.3 - cents	30.1 cents	5.0 cents
2003	210.3 cents	0	0 (IPD) cents	210.3 - cents	30.1 cents	0.0 cents
2004-05	210.3 cents	0	3.4 (IPD) cents	213.7 - cents	30.1 cents	0.0 cents
2006	210.3 cents	0	10.0 (IPD) cents	220.3 - cents	30.1 cents	0.0 cents
2007	210.3 cents	0	15.5 (IPD) cents	225.8 - cents	20.1 cents	0.0 cents
2008	210.3 cents	0	21.3 (IPD) cents	231.6 - cents	30.1 cents	0.0 cents
2009	210.3 cents	0	26.1 (IPD) cents	236.4 - cents	30.1 cents	0.0 cents
2010	210.3 cents	0	27.7 (IPD) cents	238.0 - cents	30.1 cents	0.0 cents
2011	210.3 cents	0	30.9 (IPD) cents	241.2 - cents	30.1 cents	0.0 cents

* Wholesale price index
** Steel mill products index
*** Gross national product implicit price deflator, gross domestic implicit price deflator beginning in 2000.
◆ In years following 1989 and 1991 when the inflation index was unchanged, it was frozen by legislative action.

Figure 18

Taconite Produced and Production Tax Collected

* 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. 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.

Year	Production tons (000's)	Production tax collected (000's)	Collected rate per production ton	Taxable tons* (000's)	Tax rate per taxable ton
1960	13,390	735	0.055		
1961-65	81,923	4,759	0.058		
1966	21,677	1,257	0.058		
1967-68	54,580	3,209	0.059		
1969	33,410	3,778	0.113		
1970	35,348	4,253	0.120		
1971	33,778	5,539	0.164		
1972	34,544	7,002	0.203		
1973	41,829	10,159	0.243		
1974	41,053	11,952	0.291		
1975	40,809	30,347	0.744		
1976	40,575	30,857	0.760		
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	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994	41,677	81,500	1.956	40,126	2.054
1995	45,001	85,705	1.904	42,176	2.054
1996	43,874	90,513	2.063	43,517	2.094
1997	44,816	94,705	2.113	44,563	2.141
1998	44,324	94,268	2.126	44,338	2.141
1999	41,293	93,064	2.254	43,468	2.141
2000	37,785	79,773	2.111	36,711	2.173
2001	31,628	62,288	1.969	34,638	2.103
2002	37,512	64,405	1.717	35,575	2.103
2003	34,349	65,546	1.908	31,302	2.103
2004	39,411	79,263	2.011	37,091	2.137
2005	39,535	78,544	1.987	36,755	2.137
2006	38,948	84,451	2.168	38,335	2.203
2007	37,986	85,645	2.255	37,929	2.258
2008	39,168	89,631	2.288	38,701	2.316
2009	17,079	74,255	4.348	31,411	2.364
2010	35,049	72,442	2.067	30,438	2.380

Direct Reduced Iron (DRI)

On January 12, 2010, Mesabi Nugget's Hoyt Lakes plant produced its first batch of iron nuggets. The new plant, located at the former LTV Steel Mining Company site, is the result of the joint effort between Steel Dynamics of Fort Wayne, Indiana and Kobe Steel, one of Japan's leading steel producers.

General Information

Because it is subject to the taconite production tax, a DRI production plant and facilities is exempt from regular ad valorem property taxes. The taxable tonnage is based on a three- year production average. Pig iron is considered DRI for the purpose of production tax and incentives.

A steel plant or a non-ferrous (base or precious metal) mine or plant would be subject to ad valorem (property) taxes as would any other business. If a steel plant were in conjunction with a DRI plant, the DRI portion would be subject to the taconite production tax, thus exempt from ad valorem (property) taxes.

Reduced Production Tax Rate for DRI

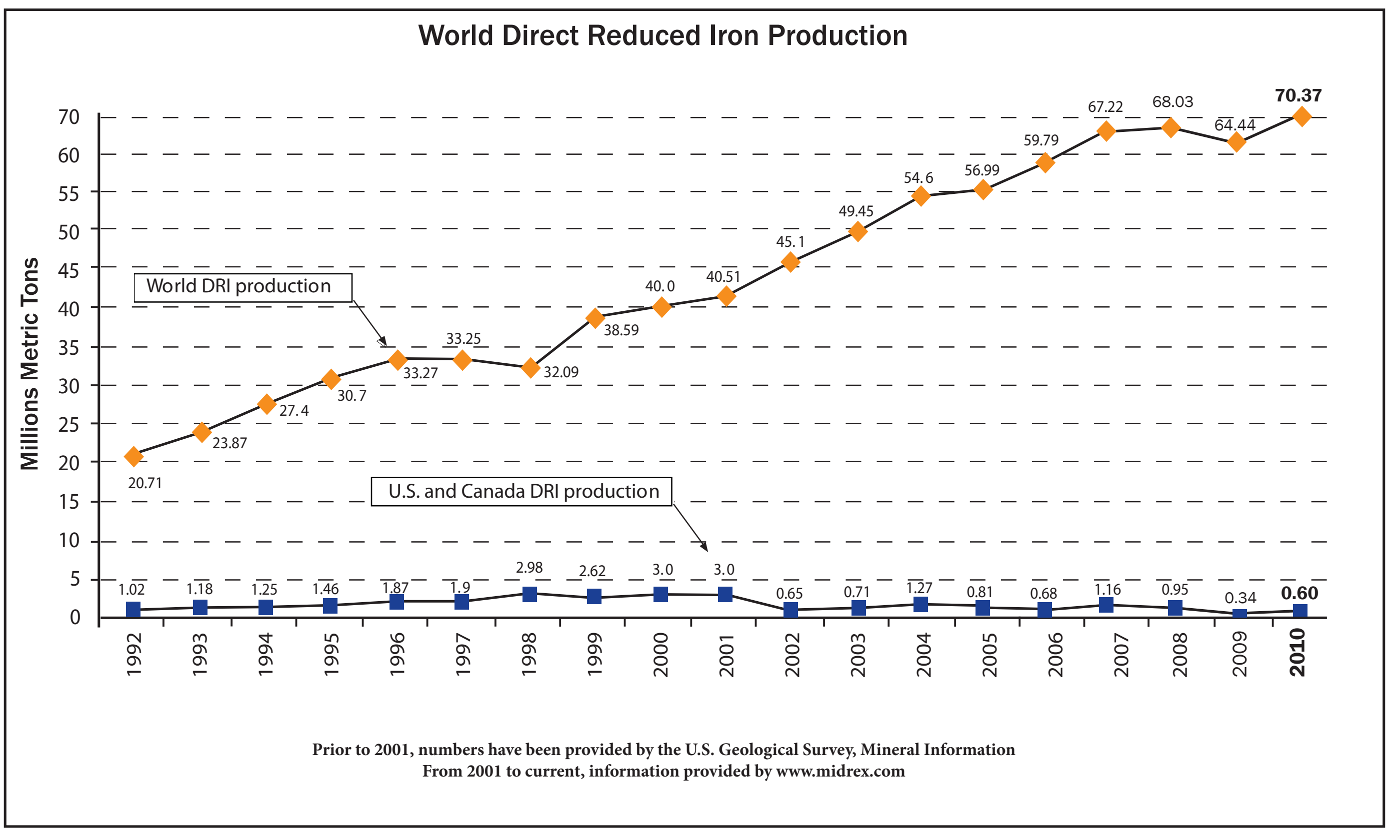
The first five years of a DRI plant's commercial production are subject to reduced tax rates, if all environmental permits have been obtained and construction has begun before July 2, 2008. Commercial production is defined as more than 50,000 tons.

Years of operation	% of regular rate	Years of operation	% of regular rate
1	0%	4	50%
2	0%	5	75%
3	25%	6	100%

The taconite production tax rate for DRI is the regular rate plus an additional 3 cents per gross ton for each 1 percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. Thus, at a base production tax rate for 2011 of $2.412 per ton, the tax rate for 90 percent iron DRI would be $2.952. The rate for 95 percent DRI would be $3.102.

A number of economic development packages to build a DRI plant or a non-ferrous plant are offered by the State of Minnesota, IRRRB and the U.S. Government. See page 25.

Figure 19



Iron Range Resources & Rehabilitation Board

Introduction

Iron Range Resources & Rehabilitation Board (IRRRB) is a unique Minnesota state agency whose mission is to diversify the economy of the Taconite Assistance Area (TAA), a 13,000 square-mile area of northeastern Minnesota.

IRRRB was established in 1941 by the Minnesota Legislature and Governor Harold Stassen to advance economic development within a region of the state largely dependent on one industry, iron mining.

IRRRB's mission is to invest in business, community and workforce development for the betterment of northeastern Minnesota. The agency, through business development, seeks to create new jobs and economic development by supporting existing businesses and attracting new businesses. Agency community development programs are designed to prepare cities and townships for change and growth. To develop a well-trained workforce that meets the needs of existing and emerging industries, the IRRRB partners with schools, colleges and industries in creating and implementing innovative educational programs.

IRRRB programs and operations are funded by a portion of the taconite production tax, paid by mining companies on each ton of iron ore pellets produced in lieu of property taxes.

Governance

IRRRB headquarters are in Eveleth. A commissioner, appointed by the governor, oversees agency operations and programs. The commissioner is advised by a board comprised of five state senators appointed by the Senate majority l eader and five state representatives appointed by the House speaker. A majority of the senators and representatives on the board must come from TAA districts. Three citizens from the TAA are also appointed to the board, one each by the Senate majority leader, House speaker and governor.

Economic Development

While much of the agency's business support is for other industries and companies to diversify the regional economy, financial assistance provided by the IRRRB has helped leverage the development and construction of new large-scale mining projects. IRRRB support in creating new value-added products such as iron nuggets, iron unit reclamation and steel production, has created hundreds of construction and permanent jobs across the region.

Near Nashwauk, the $1.6 billion Essar Steel Minnesota iron ore pellet, direct-reduced iron and slab steelmaking facility is under construction, making it the first steelmaking facility on Minnesota's Iron Range. More than 2,000 construction workers will be required to build the facility, which will employ 500 permanent workers when complete.

The $300 million Mesabi Nugget facility near Aurora and Hoyt Lakes, is the world's first commercial demonstration iron nugget plant. Iron nugget production began on January 12, 2010. The 97 percent pure iron nuggets are being shipped to co-owner Steel Dynamics, Inc. in Indiana, and used in electric arc furnaces to make steel. The iron nugget plant, which began construction in 2007, required more than 2,000 construction workers and currently employs 90 permanent workers.

Magnetation, Inc., an iron unit reclamation company, uses a proprietary process to extract weak magnetic particles from previously mined natural ore deposited years ago in tailings basins. Magnetation's Plant1 near Keewatin made its first shipment in February 2009. In June 2010, Magnetation successfully started up a new patent pending Rev3 Separator, increasing production to 400,000 tons of concentrate per year. The company in 2011 employed approximately 90 permanent workers. Magnetation plans to open a second production facility, Plant2, near Bovey producing 800,000 tons per year, requiring 200,000 man hours of construction and creating 50 additional permanent jobs. A third facility, Plant3 near Chisholm, with a capacity of 1 million tons annually, is planned as a joint venture between Magnetation, Inc. and Steel Dynamics, Inc. Concentrate produced at Plant3 will feed Mesabi Nugget in Hoyt Lakes. Beginning in January 2012 through 2018, Magnetation will ship up to 650,000 tons of concentrate per year to a Mexican steelmaker. Additional Magnetation production facilities may be built in Minnesota as well as elsewhere in the world.

Beyond iron ore pellet, iron concentrate and steel production, IRRRB supports the development of a non-ferrous mining industry in northeastern Minnesota. The Duluth Complex, with an estimated 4 billion tons of crude, non-ferrous ore, is perhaps the largest deposit of base and platinum group metals in the United States.

PolyMet Mining Corporation's NorthMet project near Hoyt Lakes and Twin Metals' Nokomis project near Birch Lake and Ely hold the potential to create hundreds of construction and permanent jobs and generate millions in new revenue to local units of government, the state and federal government. Additional non-ferrous projects are under exploration or in various stages of development in northeastern Minnesota. Copper, nickel and platinum group metals can be mined, processed and used in applications to help manufacture electronic components, catalytic converters, hospital equipment, jet engine fuel nozzles, piping, and in power transmission.

Taconite Mining

IRRRB supports a healthy Minnesota mining industry. Since the Taconite Economic Development Fund (TEDF) was approved by the Minnesota Legislature in 1993, more than $156.1 million in taconite production tax payments has been rebated to taconite producers for reinvestment in facilities.

In addition to the TEDF, the IRRRB has provided an additional $46.3 million since 1993 through its Taconite Assistance Program, Producer Grant Program (PGM) and other assistance. Included is a $10 million appropriation from the Douglas J. Johnson Economic Protection Trust Fund, which in 1996 provided grants to taconite producers for environmentally unique reclamation projects and facility improvements.

From 1993-2011, IRRRB has reinvested a total of more than $202.5 million in the Minnesota taconite industry through its programs.

Facilities and Programs

IRRRB owns Giants Ridge, a nationally-recognized golf and ski resort at Biwabik which attracts approximately 130,000 visitors annually. Giants Ridge operates two 18-hole championship golf courses and a winter sports facility. The Legend and The Quarry golf courses have earned numerous national accolades. Giants Ridge ski facility offers 35 alpine ski runs, more than 60 km of cross country ski trails, a tubing hill and easy access to lakes, mountain bike trails, the Mesabi Trail, a multi-use paved recreational trail, and thousands of miles of snowmobile trails.

Minnesota Discovery Center, a historical museum and park in Chisholm that collects, preserves, interprets and promotes the history and cultural heritage of northeastern Minnesota, is owned by the IRRRB and managed by Ironworld Development Corporation, a non-profit. IRRRB also operates a Mineland Reclamation program, headquartered near the Minnesota Discovery Center campus in Chisholm. The Mineland Reclamation program partners with communities and mining companies in undertaking safety, environmental and economic development projects on abandoned minelands. A residential building demolition program assists communities and property owners in razing dilapidated structures to create space for new home and business development. The Laurentian Vision Partnership, an IRRRB initiative, collaborates with business, governments and community interests to demonstrate how the mining process can create land forms to accommodate residents, the environment and the regional economy.

With culture and tourism an integral part of northeastern Minnesota life and the economy, IRRRB supports culture and tourism activities within the TAA by working with community and regional tourism partners. The agency provides financial, facilitator and technical assistance to tourism and cultural and heritage organizations to help enhance the region's quality of life. IRRRB support stimulates culture and tourism across northeastern Minnesota, enriching communities through artistic, heritage-related or recreational activities and projects.

Figure 20

FY 12 Iron Range Resources Budget

(As approved by the Iron Range Resources Board on August 18, 2011)

Source of funds:	All accounts[1]	Board[2]	TEPF[3]	DJJ[4]	Supp tax[5]
Unobligated Operating Reserve In	**$14,378,387**	**$3,112,884**	**$9,076,787**	**$2,188,716**	
Taconite Production Taxes	$13,233,678	$4,064,068	$9,169,610		
Investment Earnings	494,116	50,132	182,473	261,511	
Loan Revenues	2,393,377	317,223		2,076,153	
Facilities Revenue	5,061,975	4,901,283		160,692	
Occupation Tax Region III	456,565				$456,565
Total - Current Year Revenues	**$21,639,711**	**$9,332,706**	**$9,352,083**	**$2,498,356**	**$456,565**
Total Resources Available	**$36,018,098**	**$12,445,590**	**$18,428,870**	**$4,687,072**	**$456,565**
Budgeted uses of funds:	**All accounts**	**Board**	**TEPF**	**DJJ**	**Supp tax**
Operations	$5,552,622	$2,213,013	$2,396,339	$943,270	
Facilities					
Giants Ridge Golf & Ski Resort	7,100,688	7,100,688			
Minnesota Discovery Center	43,200		43,200		
Programs					
Program Grants	3,608,000	675,000	2,933,000		
Occupation Tax Region III	456,565				456,565
Projects					
Development Projects	6,500,000		4,500,000	2,000,000	
Public Works	4,000,000		4,000,000		
Total Budgeted Uses of Funds	**$27,261,075**	**$9,988,701**	**$13,872,539**	**$2,943,270**	**$456,565**
Unobligated Operating Reserve Out	**$8,757,023**	**$2,456,889**	**$4,556,331**	**$1,743,802**	

1) FY 2012 is for the period July 1, 2011 through June 30, 2012.
2) Board is an amount appropriated to the IRRRB from production tax, page 10, subdivisions 7 and 11(c).
3) TEPF is the Taconite Area Environmental Protection Fund, page 13.
4) DJJ is the Douglas J. Johnson Economic Protection Trust Fund, page 13.
5) Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties, page 30.

Figure 21

Taconite Economic Development Fund Distribution to Northeast Minnesota Taconite Producers*

Summary

Payable 1993 through 2010 (on 1993 through 2010 production)

Company	1993 - 2010	2011 Project Description	2011 Amount	Total per company
United Taconite[1] (former EVTAC Mining)	$14,595,020	Project Pending Approval	$1,524,271	$16,119,291
Hibbing Taconite Company	$28,341,545	Project Pending Approval	$1,550,083	$29,891,628
ArcelorMittal Minorca Mine (fomer Ispat Inland Mining Company)	$10,529,081	Project Pending Approval	$777,476	$11,306,557
LTV Steel Mining Company	$11,361,981	Facility Permanently Closed in 2001	$0	$11,361,981
U.S. Steel - KeeTac[2] (former National Steel Pellet Company)	$16,555,888	Project Pending Approval	$1,095,354	$17,651,242
Northshore	$15,872,429	Project Pending Approval	$1,384,087	$17,256,516
U.S. Steel - Minntac	$49,151,106	Project Pending Approval	$3,329,354	$52,480,460
Magnetation Inc.	$0		$12,980	$12,980
Totals	**$146,407,050**		**$9,673,605**	**$156,080,655****

10.4 cpt in 1993
15.4 cpt in 1994,1995 & 1996
20.4 cpt in 1997
15.4 cpt in 1998, 1999, 2000, & 2001
30.1 cpt in 2002 - 2007
20.1 cpt in 2008 for one year
30.1 cpt in 2009
Note: cpt = cents per ton

A brief explanation of the TEDF is included on page 5.

* In accordance with M.S. 298.227.
** Figure includes amounts pending

(1) 2004 TEDF amount reduced $14,083 to $33,997 and 2005 TEDF amount reduced $202,163 to $922,583.

(2) 2004 TEDF amount reduced $208,333 to $1,289,110 and 2005 TEDF amount reduced $252,854 to $1,374,096.

Figure 22

Taconite Industry Investments 1993 through 2011

Company	Taconite Assistance Program	Taconite Economic Development Fund*	Producer Grant Program	Other assistance	Total
United Taconite (former EVTAC Mining)	$2,000,000	$16,119,291	$2,263,294	$1,500,000	$20,358,314
Hibbing Taconite Company	2,000,000	$29,891,628	$4,026,531	$1,000,000	$35,368,076
ArcelorMittal Minorca Mine (former Ispat Mining Company)	2,000,000	$11,306,557	$1,328,226		$13,857,307
LTV Steel Mining Company (Permanently closed in January 2001)	2,000,000	$11,361,981	$2,675,966		$16,037,947
U.S. Steel - Keewatin Taconite (former National Steel Pellet Company)	2,000,000	$17,651,242	$2,327,192	$6,173,375	$27,056,455
Northshore Mining Company	2,000,000	$17,256,516	$2,033,805		$19,906,234
U.S. Steel - Minntac	2,000,000	$52,480,460	$6,811,172	$2,250,000	$60,212,278
Magnetation, Inc.	$0	$12,980	$0	$0	$0
Total Investment	**$14,000,000**	**$156,080,655***	**$21,466,186**	**$10,923,375**	**$202,470,216**
Grand total		**$202,470,216***			

* Figure includes amounts pending.

Occupation Tax on Taconite and Iron Ore

(M.S. 298.01, 298.16 – 298.18)

The Minnesota Constitution mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the occupation tax is generally computed in accordance with the Minnesota corporate franchise (income) tax. The alternative minimum tax (AMT) for occupation tax was repealed in 2006. Transition provisions allow for unused AMT credit amounts against occupation tax due after Dec. 31, 2005.

The occupation tax is paid in lieu of the corporate franchise tax; therefore, mining companies are exempt from corporate income tax:

> ***M.S. 290.05, Exempt individuals, organizations, estates, trusts. Subdivision 1. Exempt entities.***
>
> *The following corporations, individuals, estates, trusts, and organizations shall be exempted from taxation under this chapter, provided that every such person or corporation claiming exemption under this chapter, in whole or in part, must establish to the satisfaction of the commissioner the taxable status of any income or activity: corporations, individuals, estates, and trusts engaged in the business of mining or producing iron ore and other ores the mining or production of which is subject to the occupation tax imposed by section 298.01; but if any such corporation, individual, estate, or trust engages in any other business or activity or has income from any property not used in such business it shall be subject to this tax computed on the net income from such property or such other business or activity. Royalty shall not be considered as income from the business of mining or producing iron ore within the meaning of this section.*

In 2006 the legislature amended M.S. 298.01, subd. 3 to define all sales as Minnesota sales, so 100 percent of net income is assigned to Minnesota. The rate is 2.45 percent. This change results in no additional tax and is effective for tax years beginning after December 31, 2005.

Occupation Tax Return

The starting value of the occupation tax is the mine value, determined by the commissioner of the Minnesota Department of Revenue and published in the annual *Occupation Tax Directive*.

Generally, occupation tax is determined in the same manner as the corporate franchise tax imposed by M.S. Section 290.02 but there are two exceptions:

1) The tax is *nonunitary* because it applies only to the Minnesota mine and plant.
2) Mining companies are allowed percentage depletion.

The occupation tax applies to both ferrous and nonferrous minerals, including not only taconite and iron ore, but other minerals such as gold, silver, copper, nickel and titanium. The occupation tax due date is May 1 of the following year but companies may choose a seven-month extension to file.

Mine Value

The procedure to determine any change in mine value was developed by the Minnesota Department of Revenue and representatives from the taconite industry. The procedure used since December 1990 is:

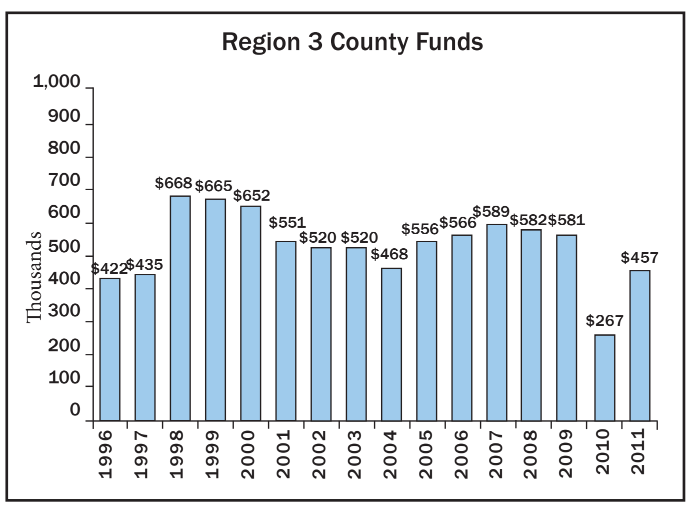
1) Seventy-five percent of the change in mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year; and
2) Twenty-five percent of the change in mine value reflects the actual transaction prices of taconite pellets sold in nonequity sales.

A copy of the *Final Directive* and backup for 2010 is on the following two pages. They show how the value per Fe (iron) unit is determined.

Occupation Tax Distribution

All occupation tax revenue (per M.S. 298.17) is credited to the general fund. Of this amount 10 percent is used for the general support of the University of Minnesota and four-ninths of 90 percent is used for elementary and secondary schools. (10% to university + 40% to schools + 50% remaining)

Region 3: An amount equal to 1.5 cents per taxable taconite ton is appropriated from the occupation tax to the IRRRB for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching counties qualify. These funds must be used to provide economic or environmental loans or grants. The amount distributed in 2011 was $456,565 based on 30,437,692 taxable tons produced in 2010. Prior to 1998, the amount distributed was based on 1 cent per taxable ton. If the remaining 50 percent is insufficient to equal 1.5 cents per ton after the constitutional distribution to education, the remainder to the two counties is reduced.



Final Directive - 2010 Occupation Tax

Basic data for preparing 2010 occupation tax reports

Taconite

The starting point for occupation tax is the mine value, such as the value of taconite pellets *after* beneficiation or processing, but *prior* to any stockpiling, transportation, marketing and marine insurance, loading or unloading costs.

Dry basis reporting. The production tonnage for both occupation tax and production tax must be reported on a dry basis. The reported weights and analysis must correspond. For example, the weighing and sampling *must* take place at or near the same location. No moisture addition or drying should occur between the points of sampling and weighing. Weighing at a location removed from the point of sampling may be used with approval and verification of the Minnesota Department of Revenue.

Non-arms-length transactions. When taconite pellets, chips or concentrate are used by the producer or disposed of or sold in a *non-arms-length transaction,* the mine value must be determined using the values below.

Non-arms-length transactions include, but are not limited to, any sales or shipments to: 1) any steel producer having any ownership interest in the selling or shipping company, or 2) any steel producer affiliated or associated with any firm having any ownership or other financial interest in the selling or shipping company.

Non-equity (arms-length) transactions. When taconite (pellets or concentrate) is sold by the producer in a non-equity or arms-length transaction, the mine value (for occupation tax purposes) must be either: 1) the actual sales price (f.o.b. mine); *or* 2) the mine value as determined using the prices below.

The mining company may elect either option, but *once it selects an option, it must continue to use that option for all arms-length transactions.*

Taconite producers with nonequity sales since 1990 have made their election. Only those with first-time nonequity sales in 2010 may select the actual sales price option for the first time. Any request for a change in the option elected must receive approval from the Minnesota Department of Revenue. Transactions must meet the definition of non-equity (arms-length) transactions previously defined.

Flux Pellets. Any company utilizing the *production tax weight reduction for flux additives* must use the flux pellet value for that production. The fluxed pellet production weight must include the weight of the flux additive for occupation tax purposes only.

Chips, Fines and Concentrate. A separate mine value for pellet chips (fines) and concentrate is used. The value of acid pellet chips or concentrate is 75 percent of the value of acid pellets. Flux pellet chips or concentrate is valued at 75 percent of the producer's flux pellet value. In order to qualify for this lower mine value, pellet chips must qualify for the Taconite Economic Development Fund. The chips or concentrate can be stockpiled or shipped, but the chips cannot be commingled with or shipped with regular pellets. All production or shipments not meeting this definition must be valued at the appropriate higher pellet value.

Direct-reduced iron (DRI). The 2010 mine value for DRI was determined using the average monthly sales price for pig iron from January–December 2010.

Taconite Values

Pellet price per Fe (iron) unit (per dry gross ton) for the period Jan. l, 2010 through Dec. 31, 2010:

	Mine value
Acid pellets	$1.216 per iron unit
Pellet chips (fines) and concentrate	75% of acid or fluxed pellet price
Flux Pellets – partial flux (.1% – 1.99% flux)*	$1.216 + $0.015 = $1.231
Flux (2.00% and higher flux) *	$1.216 + $0.015 per iron unit for each 1% flux
Direct-reduced iron (DRI)	$4.920 per iron unit

Example: Pellet with 4.8% flux in finished pellet: 4.0 × $0.015 = $0.060
Mine value: $1.216 + $0.060 = $1.276

* The percentage of flux in the pellets for occupation tax purposes will be as determined by the formula for the production tax flux credit.

The 1990 agreement between the taconite producers and the Minnesota Department of Revenue provided that any change in mine value would be determined by two factors:

1. the change in the Steel Mill Products Index (SMPI) from June of the prior year to June of the current year (75 percent); and
2. the change in the actual selling price of non-equity sales (25 percent).

The directive was determined using the final adjusted June 2009 SMPI (153.3) and final adjusted June 2010 SMPI (204.8). The nonequity sales factor was developed from completed reports provided by the taconite producers and steel companies making *nonequity sales and/or purchases of taconite pellets*.

How to Determine Mine Value

Acid Pellets

The mine value of acid pellets is determined by the change in the SMPI between June 2009 and June 2010 and the non-equity sales per dry gross ton Fe (iron) unit. The price of all non-equity pellet sales is converted to an acid sales price.

Steel Mill Products Index (SMPI)

June 2009 SMPI (final)		153.3
June 2010 SMPI (final)		204.8
204.8 ÷ 153.3 = 133.6%		
2009 mine value		$0.880
2010 SMPI % of 2009 value	×	133.6%
2010 SMPI Factor		**$1.176**

Non-equity Sales

Weighted average all pellet sales price	$1,106,884,934
Total Fe (iron) units	829,418,844

$1,106,884,934 ÷ 829,418,844 = $1.335

Weighted average sales price per Fe (iron) unit = **$1.335**

SMPI	$1.176 × 75% =	$0.882
Nonequity sales	$1.335 × 25%	0.334
2010 acid pellet mine value	=	**$1.216 per Fe (iron) unit**

Flux Pellets

The value of flux pellets is determined by the amount of flux in the finished pellet as determined for production tax purposes.

Partial flux

Pellets with 1.99 percent or less flux will be valued at $0.015 per Fe (iron) unit higher than acid pellets:

$1.216 + $0.015 = **$1.231**

Flux

Pellets containing 2 percent flux or more are valued at $0.015 per Fe (iron) unit *per each 1 percent of flux* in the finished pellet. Percentages are: 2% – 2.99%; 3% – 3.99%, etc. The percentage of flux is reported on page 1 of the *Production Tax Report* and rounded down to the nearest percentage. For example, 4.82 percent is rounded to 4 percent.

Example:

Percent of flux in finished pellet = 4.82%

4.0 × $0.015 = $0.060

The mine value of flux pellets with 4.82% flux would be:

$1.216 + $0.060 = $1.276 per Fe (iron) unit

Chips and Concentrates

A pellet chip and concentrate value is included for companies selling pellet chips or concentrate. Acid chips or concentrate is valued at 75 percent of the acid pellet price. Flux chips or concentrate is valued at 75 percent of the flux pellet value. Concentrate sold or shipped without being processed into pellets uses the same value as chips.

Direct-Reduced Iron (DRI)

Direct-reduced iron (DRI). The 2010 mine value for DRI was determined using the average monthly sales price for pig iron from January–December 2010. The 2010 average price was $462.448 per long ton for pig iron containing 94 percent iron.

The mine value of DRI is:

$462.448 ÷ 94% Fe = $4.920 per Fe (iron) unit

Figure 23

Occupation Tax Mine Value-Taconite (Historical Summary)

Year	Acid pellet price per Fe unit		Percent Fe		Lake Erie value per ton	Less transportation		Mine value
1970	0.26600	x	65.00%	=	17.29	4.05	=	13.240
1975	0.46020	x	65.00%	=	29.91	6.83	=	23.080
1980	0.72890	x	65.00%	=	47.38	10.70	=	36.680
1982-1984	0.86900	x	65.00%	=	56.49	12.69	=	43.800
1985-1987	0.72500	x	65.00%	=	47.13	13.07	=	34.060

Year		Acid pellet price per Fe unit		Flux premium		Flux pellet price per Fe unit		Percent Fe Acid	Percent Fe Flux		Mine value Acid	Mine value Flux
1994*	Acid	0.43900					x	65		=	28.535	
	Flux (4%)	0.43900	+	.062	=	.50100	x		62	=		31.062
1996	Acid	0.46400					x	65		=	30.16	
	Flux (4%)	0.46400	+	.062	=	.52600	x		62	=		32.612
1998	Acid	0.47400					x	65		=	30.81	
	Flux (4%)	0.47400	+	.062	=	.53600	x		62	=		33.23
2000	Acid	0.46600					x	65		=	30.29	
	Flux (4%)	0.46600	+	.062	=	.52800	x		62	=		32.74
2002	Acid	0.45735					x	65		=	29.73	
	Flux (4%)	0.45735	+	.062	=	.51935	x		62	=		32.20
2003	Acid	0.47315					x	65		=	30.75	
	Flux (4%)	0.47315	+	.062	=	.53515	x		62	=		33.18
2004	Acid	0.62617					x	65		=	40.70	
	Flux (4%)	0.62617	+	.062	=	.68817	x		62	=		42.67
2005	Acid	0.7102					x	65		=	46.16	
	Flux (4%)	0.7102	+	.062	=	.7722	x		62	=		47.88
2006	Acid	0.826					x	65		=	53.69	
	Flux (4%)	0.826	+	.060	=	.886	x		62	=		54.93
2007	Acid	0.923					x	65		=	60.00	
	Flux (4%)	0.923	+	.060	=	.983	x		62	=		60.95
2008	Acid	1.218					x	65		=	79.17	
	Flux (4%)	1.218	+	.060	=	1.278	x		62	=		79.24
2009	Acid	0.880					x	65		=	57.20	
	Flux (4%)	0.880	+	.060	=	.940	x		62	=		58.28
2010	Acid	1.216					x	65		=	79.04	
	Flux (4%)	1.216	+	.060	=	1.231	x		62	=		76.32

* Beginning in 1991, the value of flux pellets was modified to $.0155 per each one percent flux in the pellets. Starting in 2006, this was changed to $.015.

A lower value of 75 percent of the pellet price is allowed for chips and fines.

Figure 24

Occupation Tax Mine Value and Occupation Tax Paid

Production year

Company	Employment 2009	Employment 2010	2010 tons produced	2010 mine value	Occupation tax paid[1] (preliminary)
Hibbing Taconite	310	631	5,715,605	$465,566,148	$300,000
Arcelor-Mittal Steel	330	339	2,820,686	225,998,306	0
Northshore	520	575	4,766,315	375,038,899	707,000
USS-Keetac	86	416	4,905,833	390,810,677	
USS-Minntac	911	1,264	12,758,854	1,035,090,767	9,600,000*
United Taconite	500	499	5,016,273	397,208,477	2,010,000
Taconite totals	**2,657**	**3,724**	**35,983,566**	**$2,889,713,274**	**$12,617,000**
Mesabi Nugget	N/A	N/A	73,817	$33,198,250	$0
Direct-reduced iron (DRI) totals	**N/A**	**N/A**	**73,817**	**$33,198,250**	**$0**
Magnetation	30	37	89,581	$5,288,303	$0
Natural ore totals	**30**	**37**	**89,581**	**$5,288,303**	**$0**
Grand total	**2,687**	**3,761**	**36,146,964**	**$2,928,199,827**	**$12,617,000**

1 An automatic seven-month extension is granted if 90 percent of the tax is paid May 1. The exact tax liability for the year will not be known until December 1.

* This amount includes both Minntac and Keewatin Taconite.

Figure 25

Occupation Tax Paid by Company

	2003 (000's)	2004 (000's)	2005 (000's)	2006 (000's)	2007 (000's)	2008 (000's)	2009 (000's)	2010 (000's)
Hibbing Tac	$7	$1,141	$1,525	$2,175	$2,260	$5,420	$0	$300
Arcelor-Mittal	35	124	240	130	680	1,137	0	0
National Steel*	0	0	0	0	0	0	0	0
Northshore	0	41	25	280	832	1,563	340	707
United Tac	0	354	770	151	1,086	2,600	0	2,010
USS - Minntac	1,400	3,104	4,000**	5,000**	5,500**	12,668**	0	9,600
USS - Keetac	0	147						
Taconite total	**$1,442**	**$4,911**	**$6,560**	**$7,736**	**$10,358**	**$23,388**	**$340**	**$12,617**
Mesabi Nugget	$-	$-	$-	$-	$-	$-	$-	$0
Direct-reduced iron (DRI) total	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$0**
Magnetation	$-	$-	$-	$-	$-	$-	$-	$0
Natural ore total	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$0**
Total tax paid	**$1,442**	**$4,911**	**$6,560**	**$7,736**	**$10,358**	**$23,388**	**$340**	**$12,617**

*The former National Steel is now USS-Keewatin Taconite (Keetac).

** USS-Minntac & USS-Keetac file a combined return.

Figure 26

Crude Ore Mined

Company	2006	2007	2008	2009	2010
Hibbing	30,112,137	26,933,580	30,128,712	6,349,651	22,382,563
ArcelorMittal	8,399,603	8,410,874	9,365,603	5,063,436	8,823,871
Northshore	14,673,313	14,726,050	16,088,445	9,347,193	14,822,905
USS-Keetac	19,027,394	18,469,209	16,676,218	98,314	17,222,273
USS-Minntac	49,243,592	46,507,446	50,260,588	25,741,232	46,351,217
United Taconite	13,217,150	15,333,917	14,909,308	11,083,501	15,232,718
Totals:	**134,673,189**	**130,381,076**	**137,428,874**	**57,683,327**	**124,835,547**

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Figure 27

Occupation Tax Collected on Iron Ore, Direct Reduced Iron and Taconite Production

	Iron ore		Direct Reduced Iron		Taconite		Totals	
Year	Tons produced (000s)	Occupation tax (000s)	Tons produced (000s)	Occupation tax (000s)	Tons produced (000s)	Occupation tax (000s)	Tons produced (000s)	Occupation tax (000s)
1967	25,480	$12,646	-	-	24,311	$1,611	49,791	$14,257
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
1972	14,439	6,376	-	-	34,554	3,659	48,993	10,035
1974	17,654	9,698	-	-	41,053	10,092	58,707	19,790
1976	9,494	6,480	-	-	40,575	18,270	50,069	24,750
1978	5,905	3,937	-	-	49,545	19,266	55,450	23,203
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	-	-	42,522**	2,057	43,593	2,068
1991	406	32	-	-	39,922**	2,008	40,328	2,040
1992	528	38	-	-	38,850**	1,551	39,956	1,589
1993	145	0	-	-	40,485**	1,709	40,630	1,709
1994	318	22	-	-	42,448**	2,302	42,766	2,324
1995	349	87	-	-	45,857**	3,072	46,206	3,159
1996	441	176	-	-	44,711**	2,460	45,152	2,636
1997	501	213	-	-	45,688**	2,508	46,007	2,721
1998	392	87	-	-	45,196**	2,152	45,588	2,238
1999	235	0	-	-	42,156**	1,183	42,391	1,183
2000	400	168	-	-	45,762**	1,341	46,162	1,509
2001	150	56	-	-	32,360**	0	32,510	56
2002	161	0	-	-	38,313**	1,341	38,473	1,341
2003	0	0	-	-	34,935**	1,442	34,935	1,442
2004	0	0	-	-	40,178**	4,911	40,178	4,911
2005	0	0	-	-	40,202**	6,560	40,202	6,560
2006	0	0	-	-	39,668**	7,736	39,668	7,736
2007	0	0	-	-	38,687**	10,358	38,687	10,358
2008	0	0	-	-	39,927**	23,388	39,927	23,388
2009	71	0	-	-	17,645**	340	17,717	340
2010	90	0	74	0	35,984**	12,617	36,148	12,617

* Actual tax collected as adjusted by the provisions of M.S. 298.40. For additional information, see the 1991 *Minnesota Mining Tax Guide* or contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

** Refer to *Figure 26* — Beginning with 1990 production, the Minnesota Department of Revenue changed from natural weight to dry weight.

Figure 28

Taconite Industry Occupation Tax Report Averages on a Per Ton Basis

Year	Tons produced (000 tons)	Average value[1]	Transportation[2]	Cost of beneficiation[3]	Cost of mining[4]	Development	Taconite & property tax paid	Sales and use tax paid	Admin. and misc. expense	Royalty	Taxable value of production	Occupation tax paid
1982	23,445	53.95	12.66	31.01	6.23	2.21	0.42	0.27	4.44	2.08	(5.37)	0.14
1983	25,173	56.19	13.03	26.62	4.95	1.49	0.37	0.19	4.82	1.83	2.88	0.45
1984	35,689	56.48	13.08	19.85	4.23	2.00	0.27	0.20	4.53	1.69	10.63	0.84
1985	33,265	47.10	13.06	19.29	4.24	1.57	0.29	0.19	4.40	1.65	2.41	0.30
1986	24,017	47.14	13.02	18.47	4.32	0.90	0.32	0.22	4.48	1.50	3.69	0.26
1987	32,109	26.77	0.05	15.60	3.28	0.56	1.68	0.18	3.38	1.28	0.76	0.17
1988	39,786	24.33		14.90	3.56	0.86	1.52	0.19	2.73	1.18	(0.61)	0.08
1989	39,882	24.42		15.90	4.16	1.08	1.83	0.23	3.02	1.16	(2.97)	0.01
1990	43,176	27.44		16.29	4.51	1.08	1.93	0.26	3.01	1.13	(0.76)	0.05
1991	40,619	28.75		16.84	4.67	1.36	2.10	0.27	3.53	1.16	(1.17)	0.05
1992	39,428	28.86		17.00	4.49	1.43	2.10	0.27	4.28	1.29	(1.99)	0.04
1993	40,485	28.98		16.09	4.49	1.26	1.94	0.27	4.05	1.08	(0.21)	0.04
1994	42,448	30.14		16.43	4.71	1.58	1.94	0.27	3.76	1.09	0.38	0.05
1995	45,857	32.53		16.62	4.70	1.56	1.85	0.25	3.71	1.22	2.63	0.07
1996	44,618	31.75		18.01	5.28	1.68	2.04	0.27	4.02	1.27	(0.83)	0.06
1997	45,659	32.50		17.50	4.95	1.82	2.04	0.22	3.91	1.18	0.89	0.06
1998	45,196	32.69		17.58	4.94	1.64	2.03	0.03	3.90	1.19	1.25	0.05
1999	42,125	31.02		18.17	5.42	1.62	2.11	0.08	3.96	1.19	(1.57)	0.03
2000	45,762	32.03		19.14	4.98	1.62	2.13	0.12	3.55	1.32	(0.86)	0.03
2001	32,291	30.75		19.25	5.88	1.15	2.35	0.09	4.88	1.25	(4.09)	0.00
2002	38,313	31.68		16.74	5.16	1.27	1.92*	0.07	3.24	1.11	2.18	0.04
2003	34,935	33.37		16.11	5.74	1.05	1.72	0.08	3.73	1.24	(0.37)	0.04
2004	40,178	42.15		18.30	6.06	0.94	2.00	0.04	4.35	1.52	8.95	0.14
2005	40,202	47.60		20.94	6.68	1.24	1.91	0.11	4.67	2.17	9.89	0.16
2006	39,668	54.97		22.85	7.61	1.47	2.02	0.14	5.45	2.22	13.21	0.20
2007	38,687	61.35		25.25	8.17	1.40	2.09	0.14	5.65	2.55	16.10	0.27
2008	39,927	80.96		26.58	9.27	1.94	2.28	0.14	5.89	3.15	31.71	0.59
2009	17,645	58.69		31.51	10.42	1.61	4.12	0.16	13.24	2.84	(5.21)	0.02
2010	35,984	80.31		29.31	10.40	1.54	1.87	0.22	4.54	3.31	29.12	0.35

1. This average value will not match the values on *Figure 24*, because this is an average of all taconite produced (acid, flux, chips, concentrate).
2. Transportation consists of the rail and lake transportation allowance and marketing and marine insurance from the occupation tax directives through April 30, 1987.
3. Cost of beneficiation includes beneficiation labor, supplies, depreciation, interest, and miscellaneous, *Figure 29*.
4. Cost of mining is the total mining labor, mining supplies and depreciation, *Figure 29*.

For 1990 and later, the information on the above table comes from the *Production Cost Summary Information Report* (based on the pre-1990 *Occupation Tax Report*). *Occupation Tax Report* no longer provides this detail.

Figure 29

Taconite Industry Occupation Tax Report Average Cost Per Ton

Beneficiation

Year	Tons produced (000 tons)	Beneficiation labor (000s)	Per ton	Beneficiation supplies (000s)	Per ton	Beneficiation depr. and int. (000s)	Per ton	Beneficiation/ miscellaneous per ton	Total beneficiation per ton
1992	39,428	137,850	3.50	412,429	10.46	101,392	2.57	0.47	17.00
1994	42,448	123,354	2.91	469,106	11.05	98,752	2.33	0.15	16.43
1996	44,618	151,535	3.40	545,974	12.24	97,451	2.18	0.20	18.01
1998	45,196	152,743	3.38	552,479	12.22	84,750	1.86	0.10	17.58
2000	45,762	159,066	3.48	628,526	13.74	79,856	1.75	0.18	19.14
2002	38,313	102,497	2.68	457,091	11.93	72,639	1.90	0.24	16.74
2003	34,935	89,851	2.57	396,029	11.34	58,627	1.68	0.52	16.11
2004	40,178	101,019	2.51	541,982	13.49	63,834	1.59	0.71	18.30
2005	40,202	106,520	2.65	621,453	15.46	63,565	1.58	1.26	20.94
2006	39,668	114,256	2.88	668,441	16.85	71,194	1.79	1.33	22.85
2007	38,687	119,093	3.08	695,995	17.99	76,203	1.97	2.21	25.25
2008	39,927	129,665	3.25	800,014	20.04	78,149	1.96	1.33	26.58
2009	17,645	90,278	5.12	347,216	19.68	87,021	4.93	1.78	31.51
2010	**35,984**	**145,487**	**4.04**	**764,173**	**21.24**	**82,209**	**2.28**	**1.75**	**29.31**

Mining

Year	Tons produced (000s)	Mining labor (000s)	Per ton	Mining supplies (000s)	Per ton	Cost of mining	Mining depreciation (per ton)	Total mining costs per ton
1992	39,428	75,363	1.91	87,287	2.21	4.13	0.36	4.49
1994	42,448	81,778	1.93	101,974	2.40	4.33	0.38	4.71
1996	44,618	83,441	1.87	131,305	2.94	4.81	0.46	5.28
1998	45,196	81,703	1.81	127,659	2.83	4.63	0.31	4.94
2000	45,762	72,608	1.58	140,198	3.06	4.65	0.33	4.98
2002	38,313	68,142	1.78	113,560	2.96	4.74	0.42	5.16
2003	34,935	61,008	1.75	123,612	3.54	5.28	0.45	5.74
2004	40,178	82,485	2.05	142,550	3.55	5.60	0.46	6.06
2005	40,202	74,735	1.86	170,292	4.23	6.09	0.59	6.68
2006	39,668	80,686	2.03	189,791	4.78	6.81	0.80	7.61
2007	38,687	81,108	2.10	199,594	5.16	7.26	0.91	8.17
2008	39,927	86,002	2.15	246,663	6.18	8.33	0.94	9.27
2009	17,645	48,470	2.75	98,104	5.56	8.31	2.11	10.42
2010	**35,984**	**94,968**	**2.64**	**234,066**	**6.50**	**9.14**	**1.26**	**10.40**

For 1990 and later, the information on this table is based on the *Production Cost Summary Information Report* (from the pre-1990 *Occupation Tax Report*).

Income Tax Withholding on Mining and Exploration Royalty

(M.S. 290.923)

Income tax withholding is a 6.25 percent tax assessed on exploration and/or mining royalty income. This section defines royalty, identifies who must pay the tax, and outlines the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost by company per ton of pellets produced (Figure 31) and the industry-wide cumulative total royalty paid and income tax withholding (Figure 30).

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 Minnesota for permission to explore, mine, take out or remove ore. Ores subject to withholding are iron, taconite, and other minerals (copper, nickel, gold, etc.) subject to the net proceeds tax. Royalties may include rents, bonus payments, and non-recoverable lease payments.

Withholding Income Tax on Royalties

All payers of mining or exploration royalties are required to withhold and remit an income tax of 6.25 percent on royalties paid for use of Minnesota lands (effective Jan. 1, 2001). Note: This does not include royalties paid to partnerships, S corporations and C corporations. Royalties paid to these entities should not have income tax withheld. See below for information on royalties paid to trusts.

Royalty payers have the option of reporting royalty withholding with their regular wage/salary withholding, or reporting it under a separate Minnesota tax ID number used for royalty withholding only. If you choose to report royalty withholding separately, you must first register for a separate ID number. Go to the department's website at **www.revenue.state.mn.us** and register for an ID number online or call 651-282-5225. Then, file your royalty withholding returns separately from your wage/salary withholding. All withholding returns must be filed electronically through the department's e-Services system. Go to the department's website for more information.

Federal Form W-4. Royalty payers must have all new employees complete federal Form W-4 to determine their federal and Minnesota withholding allowances. For Minnesota, employees may claim up to, but not more than, the number of federal allowances they claim.

Keep all W-4 forms in your records.

If they choose the same number of federal and Minnesota withholding allowances, only one W-4 form is necessary. If they claim fewer Minnesota withholding allowances than federal allowances, they must complete a form W-4MN listing the Minnesota allowances. If the employee does not provide a completed W-4 before the first wage payment, withhold tax as if he or she is single with no withholding allowances.

You are not required to verify the number of withholding allowances claimed by each employee. You should honor each W-4 form unless we notify you that it is not valid.

You must, however, send the department a copy of any W-4 form on which:

- an employee claims more than 10 withholding allowances;
- an employee claims to be exempt from Minnesota withholding and you reasonably expect the wages to exceed $200 per week, unless he or she has completed Form MWR, Reciprocity Exemption/Affidavit of Residency;

or

- you believe an employee is not entitled to the number of exemptions he or she claimed.

Send required W-4 copies to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

If you don't send us a copy of Form W-4 when required, you are subject to a $50 penalty for each required certificate you do not send. An employee who knowingly files an incorrect W-4 form will be subject to a $500 penalty for each incorrect certificate filed.

Federal Form 1099 MISC. Royalty payers must also provide each royalty recipient with a federal Form 1099 MISC by January 31 for royalties paid during the previous year. Follow the federal requirements to issue 1099s to persons to whom you made payments. Enter MN in the "State" space, and fill in the amount of Minnesota income tax withheld for that royalty recipient during the year.

Mail the 1099s by March 1 to: Minnesota Revenue, Mail Station 1173, St. Paul, MN 55146-1173. Also mail a copy to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

Magnetic Media Reporting. Royalty payers who are required to send federal W-2 wage detail and 1099 information on magnetic media are required to submit that information to Minnesota on magnetic media as well. Use Social Security Administration (SSA) Publication (MMREF-1), IRS Publication 1220, and the department's Withholding Fact Sheet 2 to prepare your magnetic media for Minnesota. Minnesota accepts returns on magnetic media allowed by the federal government, except reel-to-reel tapes and cartridges.

Royalties Paid to Trusts

Simple trusts (i.e., trusts that distribute all royalty income to their beneficiaries) are exempt from withholding on royalties unless they elect to have tax withheld by the royalty payer. If the trust elects to have tax withheld, it must notify the royalty payer of its decision by providing the payer with a federal W-4 form. If the trust chooses tax-exempt status, the trust becomes the "royalty payer" and is responsible for withholding tax from its beneficiaries as well as complying with all withholding tax requirements, including:

- Informing beneficiaries of the requirements to withhold tax and providing them with W-4 forms;
- Providing beneficiaries with 1099 MISC forms each year by January 31 for royalties received the previous year; and
- Filing all required withholding returns electronically with the State of Minnesota.

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. Nonresident individuals will not incur a Minnesota income tax liability for 2011 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $9,500. 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, M-1NR, to obtain a refund. Royalty recipients *are not* eligible to use percentage depletion on their individual income tax returns.

Questions

Questions should be directed to the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

An instruction booklet, *Minnesota Income Tax Withholding,* is available on the department's website. Although the booklet is designed for withholding on Minnesota wages, the general filing requirements also pertain to royalty withholding.

Royalty Tables

The royalty costs per ton beginning in 1995 to the present are shown in *Figure 32.*

Figure 30

Royalty Paid and Income Tax Withheld
(Taconite, natural ore and others)

Year	Royalty paid	Income tax withheld
2001	$45,448,947	$265,587
2002	$37,903,733	$142,422
2003	$45,173,508	$216,629
2004	$56,726,329	$214,962
2005	$77,298,269	$332,015
2006	$86,238,285	$238,142
2007	$87,154,748	$334,975
2008	$118,761,439	$415,491
2009	$62,952,973	$207,365
2010	$128,435,093	$137,943

Royalties paid to the state on state-managed mineral lands are not subject to withholding tax. However, these revenues are allocated by law primarily for educational purposes.

The Minnesota Department of Natural Resources manages state-owned mineral rights for the permanent school fund, permanent university fund, and taxing districts throughout the state. Interest and dividends from the permanent school fund are distributed to school districts throughout the state. Interest and dividends from the permanent university fund are split between a scholarship account for students at the University of Minnesota and for minerals research conducted by the Natural Resources Research Institute.

Revenue from mining on tax forfeited lands is split between the state's general fund (20 percent) and local taxing districts (80 percent). From the 80 percent distributed to local taxing districts, 3/9 of the revenue goes to the county, 4/9 to the school district and 2/9 to the township or city where the mining occurs.

For more information, contact the Transactions Section, Lands and Minerals Division, DNR, in St. Paul (see address and phone information before the table of contents).

Figure 31

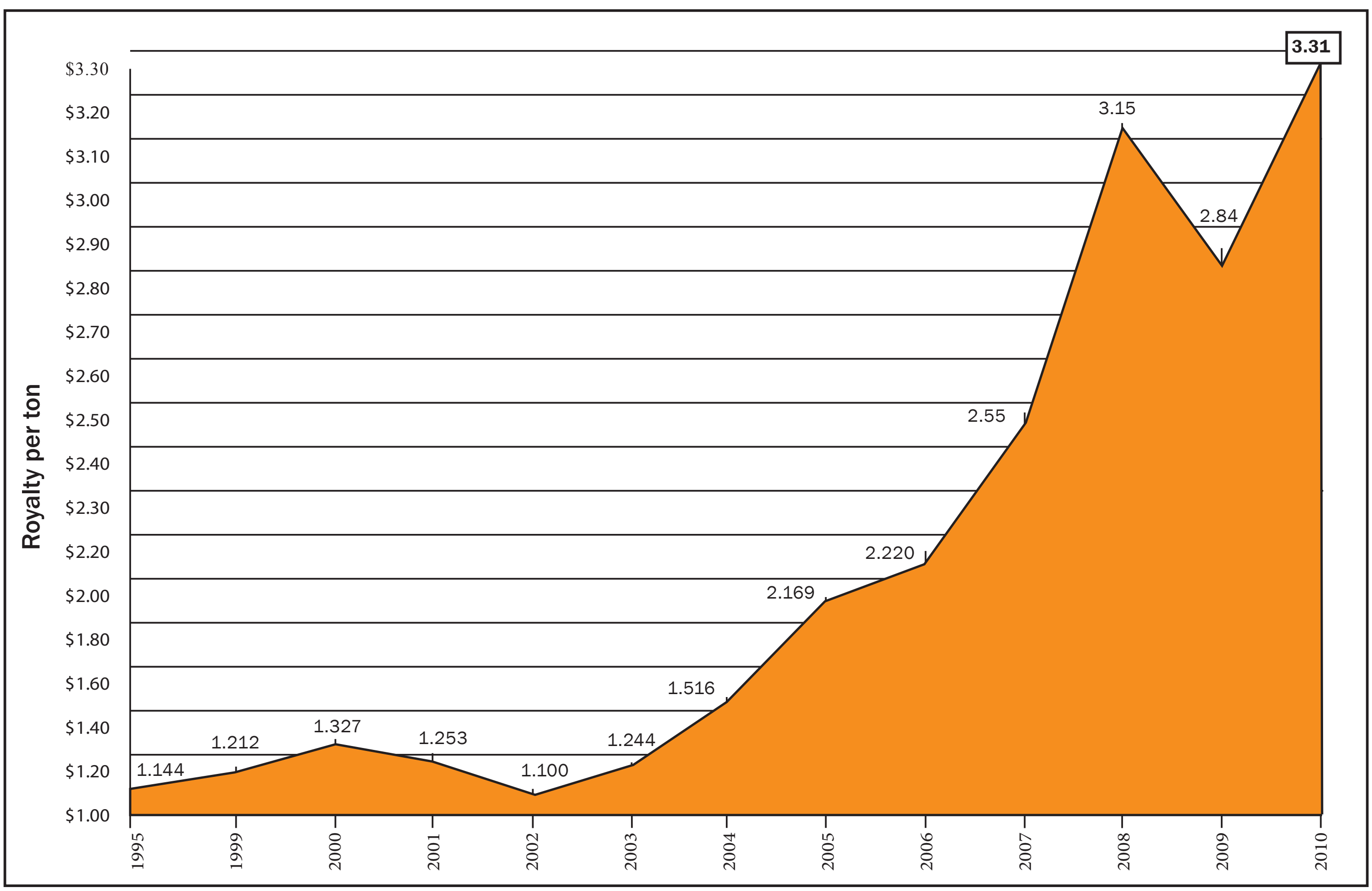
Average Royalty Cost Per Ton of Pellets Produced

	1995	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
Industry Production (millions of tons)	45.9	44.9	38.3	34.9	39.4	40.2	39.7	38.7	39.9	17.6	36.0
Eveleth/EVTAC	1.416	1.986	1.287	NA	NA	NA	NA	NA	NA	NA	NA
Hibbing	1.495	1.561	1.338	1.492	1.631	2.045	1.92	2.19	2.31	5.32	2.90
ArcelorMittal (formerly Ispat Inland)	0.810	0.997	1.056	1.097	1.298	1.819	1.73	2.11	2.91	2.33	3.10
National	1.606	0.943	0.943	1.114	NA	NA	NA	NA	NA	NA	NA
Northshore**	1.472	1.690	1.614	1.716	2.659	5.481	5.08	5.02	6.95	4.45	6.08
United Taconite	–	–	–	–	1.333	1.724	1.84	2.16	2.72	2.34	3.68
USS – Minntac	0.397	0.948	0.844	0.990	1.180	1.498	1.63	2.13	2.37	1.95	2.38
USS – Keewatin	–	–	–	1.217	1.463	1.740	2.14	2.40	3.20	0.00	3.26
Industry Average – Weighted	1.144	1.327	1.100	1.244	1.516	2.169	2.22	2.55	3.15	2.84	3.31
Arithmetic	1.249	1.394	1.180	1.271	1.594	2.384	2.39	2.67	3.41	2.73	3.57

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

Figure 32

Royalty Costs per Ton
Taconite Industry Weighted Average



Sales and Use Tax
Taconite and Iron Ore

(M.S. 297A)

The general Minnesota sales and use tax is a broad-based tax on consumer expenditures. The tax is imposed on the sale of tangible personal property or services to the final consumer. A number of exemptions reduce the size of the actual sales and use tax base. In addition, different tax rates apply to several products. The current sales tax rate is 6.875 percent.

Sales and use taxes are essentially identical taxation of tangible personal property. Sales tax is assessed by the seller at the time of the sale. Use tax is paid by the purchaser or user when no sales tax is paid at the time of the sale.

Industrial Production Exemption

The industrial production exemption, M.S. 297A.68, subd. 2, 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 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. Sales Tax Fact Sheet 147, *Taconite and Iron Mining,* is available on the department's website.

The 1971 Minnesota legislature approved the production materials exemption (M.S. 297A.68, Subd. 4) exclusively for the taconite mining industry. This statute allows an exemption from sales tax on grinding rods, grinding balls, and mill liners that are substantially consumed in the production of taconite. During the process, this material is added to, and becomes a part of, the product processed. For the purpose of the exemption, the term *mill* includes all facilities used to reduce and process ore.

In 1974, the Minnesota legislature amended the industrial production exemption (M.S. 297A.68, subd. 2) 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 fewer 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 qualify for this exemption.

The 1994 legislature expanded the law to exempt materials, including chemicals, fuels and electricity purchased by persons engaged in industrial production to treat production process waste.

All sales and use tax information must be filed electronically at the department's website at **www.revenue.state.mn.us** or by phone at 1-800-570-3329.

Capital Equipment Refund

If you buy or lease qualifying capital equipment or replacement capital equipment for use in Minnesota, you are eligible for a refund of all, or a part of, the Minnesota and any local sales or use tax paid.

Capital equipment means machinery and equipment used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining a product to be sold ultimately at retail. Both purchasers and lessees of capital equipment are eligible for a full refund of the sales or use tax.

Replacement capital equipment means machinery and equipment to replace qualifying capital equipment; repair and replacement parts, accessories and upgrades to qualifying equipment; foundations for qualifying equipment; and special purpose buildings. Beginning July 1, 1998, purchases or leases of replacement capital equipment are eligible for a full refund of the sales and use tax paid.

You must pay sales tax when you buy or lease capital or replacement capital equipment. If the seller does not charge sales tax, you must report and pay use tax on the equipment. To get a refund of sales or use tax paid, you must file a capital equipment refund claim, Form ST-11. You may file no more than two capital equipment refund claims in a calendar year.

A claim must be filed within three and one-half years from the due date of the return, or within one year of the date of an order assessing liability (if the liability has been paid in full), whichever is longer.

Capital equipment is not the same as capitalized assets. Items capitalized for accounting purposes do not automatically qualify as capital equipment. Items that you expense for accounting purposes, such as leased equipment, may be considered capital equipment for refund purposes.

Capital equipment does not include:

- Agriculture, aquaculture, and logging equipment; or
- Motor vehicles taxed under Minnesota Statutes, section 297B (vehicles for road use).

Mandatory Electronic Payments

If you have a sales and use tax liability of $10,000 or more in the state's fiscal year (July 1 – June 30), you must pay all taxes electronically beginning with the next calendar year.

Accelerated Payments

If you have a sales and use tax liability of $120,000 or more during the last 12-month period ending June 30, you must pay part of each monthly liability early, starting with the first return due in the following calendar year.

The requirement applies to payments due for all months, but there are special rules that apply to your June payment and return. For months other than June, you can elect to make accelerated payments using one of two available methods (see the methods below). The due date for paying is different depending on which method you choose. However, the due date for filing your sales and use tax return and for making any remaining payment is still the 20th day of the following month.

Review the requirements for each method carefully. The method you elect to use the first time you are required to make an accelerated payment is the method you must use for all future payments, as long as you are required to make accelerated payments.

Method 1: On or before the 14th day of the following month, pay 90 percent of the estimated liability for the month in which the taxable event occurred. To avoid penalty, your payment must be at least:

- 90 percent of the liability for the month in which the taxable event occurred, or
- 90 percent of the liability for the month preceding the month in which the taxable event occurred, or
- 90 percent of the liability for the same month in the previous calendar year as the month in which the taxable event occurred, or
- 90 percent of the average monthly liability for the previous calendar year.

Method 2: On or before the 20th day of the month in which the taxable event occurred, pay 67 percent of the liability for the previous month. To avoid penalty, your payment must be at least:

- 67 percent of the liability for the month preceding the month in which the taxable event occurred,
- 67 percent of the liability for the same month in the previous calendar year as the month in which the taxable event occurred, or
- 100 percent of your actual liability.

June Accelerated Payment

For the month of June, your accelerated payment is due on a different date. The June accelerated payment is due two business days before June 30, and the remaining payment and return for June is due August 20. To avoid penalty, your June accelerated payment must be at least:

- 90 percent of your actual June liability, or
- 90 percent of your May liability, or
- 90 percent of your average monthly liability for the previous calendar year.

To avoid possible penalties and interest, it is important to review your account to ensure that you are filing and paying properly.

Figure 33

Use Tax Paid

Year	Use tax	Refund claims*	Net use tax collected
2000	18,829,904	12,698,510	6,131,394
2001	14,123,142	15,775,844	(1,652,702)
2002	13,694,774	12,850,487	844,287
2003	12,435,693	11,238,116	1,197,577
2004	17,139,316	8,624,502	8,514,814
2005	20,219,218	12,393,334	7,825,884
2006	23,191,259	14,446,391	8,744,868
2007	25,795,536	19,191,938	6,603,598
2008	24,225,373	14,670,700	9,554,673
2009	16,040,963	18,876,729	(2,835,766)
2010	$25,303,605	$8,201,710	$17,101,895

* These are capital equipment refund claims allowed, not including interest, for new or expanding businesses and for repair and replacement parts.

Capital Equipment Exemptions and Refunds

Title	Company responsibility	Refund procedure
Industrial Production Exemption M.S. 297A.68, subd. 2	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Taconite Production Material Exemption M.S. 297A.68, subd. 4	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Capital Equipment Exemption (refund) M.S. 297A.68, subd. 5 (definition) M.S. 297A.25, subd. 42	Must pay the sales tax or assess use tax	File for 6.875% refund on Form ST-11
Replacement Capital Equipment (refund) M.S. 297A.68, subd. 5F	Must pay the sales tax or assess use tax	File for 6.875% refund on Form ST-11
Minerals Production Facilities Exemption M.S. 297A.71, subd. 14 (refund)	Must pay the sales tax or assess use tax	File for 6.875% refund on Form ST-11

What is the Mineral Production Facilities Exemption?

The Mineral Production Facilities exemption was enacted by the 1994 legislature and says that the purchase of materials to construct *any* of the following types of facilities is exempt. This includes materials to construct buildings to house the equipment even though the buildings, when completed, become real property.

1. A value-added iron products plant that may be either a new plant or facilities incorporated into an existing facility that produces iron upgraded to a minimum of 75 percent iron content or any iron alloy with a minimum metallic content of 90 percent.
2. A facility used for the manufacture of fluxed taconite pellets.
3. A new capital project that has a total cost of more than $40 million that is directly related to production, cost or quality at an existing taconite facility that does not qualify under 1 or 2 above.
4. A new mine or mineral processing plant for any mineral subject to the net proceeds tax.

Aggregate Material
Sales and Use Tax

(M.S. 297A)

Aggregate material is nonmetallic natural mineral aggregate including, but not limited to, sand; silica sand; gravel; stone; boulders; and crushed and uncrushed rock, including landscape rock, rip-rap, crushed granite and crushed limestone.

Industrial Production Exemption
Aggregate producers are allowed to make purchases exempt from sales or use tax if the purchases are used or consumed in the production of personal property intended to be sold ultimately at retail. This includes chemicals, fuels, petroleum products, lubricants, gas and electricity.

Capital Equipment Refund
New or used original or replacement capital equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment qualify for the capital equipment refund of the 6.875 percent sales tax paid.

Aggregate Materials Sales

Sales to Contractors
Taxable: Generally, sales tax does not apply when contractors make improvements to real property and purchases of aggregate by a contractor to make the improvement to real property are taxable. Generally, charges by third parties to deliver of aggregate are subject to the tax. If the person delivering aggregate materials has a contract requiring both the delivery and the depositing substantially in place of the aggregate materials, the transaction will be treated as an improvement to realty. The aggregate material will be considered to be deposited substantially in place if the aggregate material is deposited directly from the transporting vehicle or through spreaders from the transporting vehicle at the actual place where it will be graded or compacted. If the aggregate material is merely dumped in a pile, the delivery charges are subject to sales tax.

Nontaxable: The purchase of aggregate by a contractor from a pit owner for resale is exempt from sales tax if the contractor provides the pit owner with a completed exemption certificate, Form ST3. A retail sale by a contractor involves only the dumping of aggregate; no leveling, spreading, or further action by the contractor is provided. The contractor must charge sales tax to the end user of the aggregate. **Effective Jan. 1, 2002, all delivery charges are subject to sales tax.**

Sales to Townships
Purchases by townships of aggregate,machinery, equipment and accessories **used exclusively for road and bridge maintenance** are exempt from sales tax. Charges to deliver gravel to a township are also exempt. Purchases of aggregate, machinery, equipment and accessories used for parking lots, playgrounds, trails, etc., are subject to sales tax. Also, all culverts, bridge decking or railing, structural steel and any road surfaces, such as asphalt, concrete or chloride are subject to sales tax.

Sales to Cities, Counties or Special Taxing Districts
All sales of aggregate to cities, counties or special taxing districts are subject to sales tax when they are used by these entities, unless they will be resold in the same form. No exemption is allowed for purchases used for road and bridge maintenance.

Aggregate Pit Owned by a Government Unit
If a pit is owned or leased by a government unit, aggregate removed for its own use **is not subject to sales tax**. However, all aggregate sold to others is subject to sales tax, unless the purchaser provides an exemption certificate.

Aggregate Crushing and Screening
Screening and crushing of aggregate is fabrication labor subject to sales tax. Fabrication labor is the making or creating of a new product or altering an existing product into a new or changed product, even when the customer provides the materials to be screened or crushed.

Sales Tax on Purchases: Ready-Mix Concrete Producers
Nontaxable Purchases: The purchase of aggregate by a ready-mix concrete producer to be used in making the product is exempt from sales tax if the producer provides a completed exemption certificate (ST3) to the aggregate seller. Ready-mix concrete producers are not classified as contractors.

Nontaxable Purchases: If a ready-mix producer makes retail sales of aggregate, the aggregate may be purchased exempt from sales tax if they provide a completed exemption certificate (ST3) to the aggregate seller.

Sales Tax on Purchases: Bituminous Producers
Taxable Purchases: All purchases of aggregate are taxable if the bituminous producer is primarily a contractor (makes and installs the product).*

Exempt Purchases: If a bituminous producer is primarily a retailer and makes retail sales of bituminous product (does not include installation), the purchase of the aggregate is exempt from sales tax provided the retailer provides a completed resale exemption certificate (ST3) to the aggregate seller.

Note: If the bituminous producer is a contractor-retailer, it must decide which function constitutes at least 50 percent of the business. If the producer is primarily a contractor, it must pay sales tax on all purchases. If the producer is primarily a retailer, it may purchase aggregate exempt from sales tax if a completed exemption certificate (ST3) is provided to the aggregate seller.

* Purchases by a contractor while acting as a purchasing agent for exempt entities may be purchased without paying sales tax only if the contractor has a written agreement with the exempt entity. This written agreement must contain certain criteria. For more information regarding purchasing agreement criteria, contact the Department of Revenue.

Ad Valorem Tax on Unmined Taconite

(M.S. 298.26)

A tax not exceeding $15 per acre may be assessed on 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 in the statute is somewhat misleading since 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 term "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 government lot, the 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 Minnesota Department of Revenue. This is done through the evaluation of exploration drill hole data submitted by the mining companies.

The categories are:

1) Lands that are underlain by magnetic taconite of sufficient quantity and grade to be currently economic: They are considered to be economic taconite and are given a market value of $500 per acre.

2) Lands either not believed or not known to be underlain by magnetic taconite of current economic quantity, quality and grade: They are considered to be uneconomic taconite and are given a market value of $25 per acre.

To be classified as economic taconite, category 1, the taconite must pass the following criteria:

— contain more than 16 percent magnetic iron with the Davis tube test;

— contain less than 10 percent concentrate silica (SiO_2) with the Davis tube test;

— have a 15- to 25-foot minimum mining thickness; and

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

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

If the material fails any of the above criteria, then it is considered to be *uneconomic* taconite and classified as category 2. Some lands may also be considered as uneconomic due to environmental restrictions.

For taxes payable in 2011, the tax is calculated by multiplying the market value for the parcel of land by the 2.00 percent class rate to obtain the tax capacity. The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to to class 5 unmined taconite. This is then multiplied by the local tax rate plus the state general property tax rate of 49.043 percent for taxes payable in 2011. In addition, if a referendum is present, the referendum rate is multiplied by the full market value (not tax capacity). *Note: Call your county auditor for more information.*

Figure 34

Unmined Taconite Tax Paid

(Year payable)

County	2004	2005	2006	2007	2008	2009	2010	2011
Itasca	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
St. Louis	300,173	273,601	261,687	532,102	495,033	466,991	238,274	239,518
Totals	**$300,173**	**$273,601**	**$261,687**	**$532,102**	**$495,033**	**$466,991**	**$238,274**	**$239,518**

Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations

(M.S. 272.01)

Lands and structures actively used for taconite production are exempt from the ad valorem tax and are subject to the production tax *in lieu* of property tax. 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 on a parcel basis to the nearest five acres. It is important to note that this exemption applies only to the ad valorem tax on the land and buildings and *not to the unmined taconite tax* described on the following page. 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 law. The two most common property classifications used on auxiliary mining lands are industrial and rural vacant land. In general, lands in close proximity to active taconite operations are assigned the industrial classification while those further away are classified as rural vacant land. The classification of property is covered in M.S. 273.13.

Each property classification has a legislatively set percentage called the class rate that is multiplied by the assessor's estimated market value (EMV) to calculate tax capacity. For payable 2011 taxes, the class rate for timber is 1.00 percent of the estimated market value. For the industrial classification, there are two class rates: 1.50 percent for the first $150,000 of the EMV and 2.0 percent for the value over $150,000.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. In St. Louis County within the mining area for taxes payable in 2011, they range from a low of approximately 83 percent to a high of approximately 267 percent. In addition, the market value times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district. For industrial class property, the state general tax rate of 49.043 percent applies in addition to the local tax rate.

The following schedule provides for adjustments in both the valuations and classifications 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 outlines valuation adjustments to be made on excess lands where they are located as market conditions and/or Minnesota statutes dictate (see below). This schedule was updated based on market conditions for the 2010 assessment.

St. Louis County Mining Land Assessment Schedule

1. Iron formation land	**Value ($/acre)**	**Classification**
A. Land within ¼ mile of active pit	$1000	Industrial
B. Excess land (more than ¼ 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 ¼ mile of mining activity	$700	Industrial
B. Excess Land		
1. Undistrurbed	Same as other private land	Timber or current use
2. Tailings Ponds		
a. Stockpiles	75% of other private land	Timber or current use
b. Tailings Ponds	30% of other private land	Timber or current use

Ad Valorem Tax on Unmined Natural Iron Ore

(M.S. 272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

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 county auditor collects the tax levy.

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.

Each year, the Minnesota Department of Revenue uses a five-year average for allowable costs taken from the occupation tax report. A five-year average of the Lake Erie iron ore market value 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 deductions from the Lake Erie market value on the computation of present worth, which is known as the Hoskold Formula:

1a. Mining, normal costs
1b. Mining, special costs
2. Beneficiation
3. Miscellaneous (property tax, medical ins., etc.
4. Development (future)
5. Plant and equipment (future) Plant
6. Freight and marine insurance
7. Marketing expense
8. Social Security tax*
9. Ad valorem tax (by formula)
10. Occupation tax
11. Federal income tax
12. Interest on development and working capital

* Since 1987, Social Security tax has been included under miscellaneous.

These twelve allowable expense items are deducted from the Lake Erie market value to give the estimated future income (per ton). Note that although royalty is allowable as an occupation tax deduction, it is not allowable on Minnesota's ad valorem tax.

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. The department presently allows a 12 percent risk rate and 6 percent safe rate that 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 the market value by the Minnesota Department of Revenue.

The term "class rate" was introduced for taxes payable in 1990. For 2002 and thereafter, this rate is reduced to 2.0 percent.

The tax capacity is the product of the class rate and the market value. The product of the market value and class rate must then be multiplied by the local tax rate plus the state general property tax rate to determine the tax. In addition, the market value times the referendum rate must be added if there is a referendum in the taxing district.

Local tax rates are a function of county, local government, and school district spending. In addition, a statewide general property tax levy applies to most types of property with the exception of agricultural and homestead properties. For example, for taxes payable in 2011, tax rates ranged from a low of approximately 83 percent to a high of approximately 267 percent (not including the state general property tax rate of 49.043 percent) in St. Louis County. The follwing class rates were in effect through 2012.

CLASS RATES

Payable 1999	3.50%
Payable 2000	3.40%
Payable 2001	3.40%
Payable 2002	2.00%
Payable 2003	2.00%
Payable 2004	2.00%
Payable 2005	2.00%
Payable 2006	2.00%
Payable 2007	2.00%
Payable 2008	2.00%
Payable 2009	2.00%
Payable 2010	2.00%
Payable 2011	2.00%
Payable 2012	2.00%

The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to unmined iron ore that are class 5 properties.

The Minnesota Department of Revenue 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 revised in 1974, 1986, 1988, 1992 and 1999. The market values for iron ores that do not show a value with the Hoskold Formula are determined from the schedule of minimum rates. The table on the following page lists the current schedule of minimum rates. Most of the iron ore value remaining today was determined using the schedule of minimum rates.

Figure 35

Minimum Rates		
Ore classification	**Market value/ton (cents)**	
	Itasca and St. Louis Counties	**Crow Wing County**
Wash Ore Concentrate (OPC)	12.0	6.0
Heavy Media Concentrate (HMC)	9.0	4.5
Low Grade (OPPRC)	3.0	1.5
Underground uneconomic (Stripping ratio greater than 5 to 1)		
Underground Concentrate > 60% Fe (UGC)	2.4	1.2
Underground Concentrate < 60% Fe (UGC)	1.8	0.9
Underground Heavy Media (UGHM)	1.5	0.75
Low grade (UGPRC)	0.9	0.45
Low grade (UGR)	0.9	0.45

Open pit ores with too high of a 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 underground uneconomic classification.

Beginning with the 1999 assessment, the minimum rates for determining market values in Crow Wing County were reduced by 50 percent. This simply recognizes that the potential for mining iron ore is substantially less in Crow Wing County than on the Mesabi Range in St. Louis or Itasca counties.

Figure 36

Iron Ore Ad Valorem Tax Payable

Year assessed	Market value	Payable	Year estimated tax payable			Total
			Crow Wing	Itasca	St. Louis	
1996	4,448,800	1997	10,900	34,900	226,200	272,000
1997	4,175,400	1998	10,400	23,500	244,900	278,800
1998	4,020,900	1999	8,200	18,900	188,100	215,200
1999	3,781,800	2000	4,200	20,200	181,800	206,200
2000	3,765,800	2001	3,900	18,600	159,400	181,900
2001	3,637,400	2002	3,500	17,600	147,200	168,300
2002	2,720,400	2003	3,500	16,900	107,200	127,600
2003	2,734,200	2004	3,300	15,400	101,600	120,300
2004	2,529,200	2005	2,700	14,100	87,300	104,100
2005	2,355,700	2006	2,700	13,300	77,400	93,400
2006	2,350,100	2007	2,500	12,700	79,100	94,300
2007	2,255,300	2008	2,300	11,600	68,400	82,300
2008	2,345,800	2009	2,200	11,400	70,100	83,700
2009	2,347,000	2010	2,200	12,200	71,500	85,900
2010	2,345,500	2011	2,400	12,700	76,400	91,500
2011	2,341,600	2012				

A notice of the market value of unmined ore shall be sent to each person subject to the tax and to each taxing district affected on or before May 1 (M.S. 273.1104).

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore must be held on the first secular day following May 20. This hearing provides an opportunity for mining company and taxing district representatives to formally protest any of the ore estimates or valuation procedures they believe to be incorrect.

In addition, current conditions and future trends in the iron ore industry are discussed. I ron ore ad valorem taxes are expected to continue their long decline as remaining economic deposits are mined or allowed to go tax forfeit. Reserves in old flooded pits converted to recreational use are classified as underground, low-grade recreational (UGR).

Ad Valorem Tax on Taconite Railroads

(M.S. 270.80 - 270.88)

Beginning with the Jan. 2, 1989 assessment, taconite railroads have been included in the definitions of *common carrier* railroads and were assessed and taxed on an ad valorem basis according to Minnesota law. LTV and Northshore were the only railroads classified as taconite railroads. Since the 2003 assessment Northshore Mining is the only operating railroad.

The Minnesota Department of Revenue developed rules governing the valuation of railroad operating property. The rules have been in effect since 1979 when common carrier railroads went off the gross earnings tax. Each railroad is required to file an annual report containing the necessary information.

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. Personal property is 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 receives 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 is 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.

Figure 37

Taconite Railroad Ad Valorem Tax Assessed

Year payable	Assessed	St. Louis County	Lake County	Cook County	Total tax
1995	1994	$78,281	$140,300	$14,454	$233,034
1996	1995	64,516	116,143	14,456	195,115
1997	1996	49,283	61,107	13,292	123,682
1998	1997	46,250	66,114	10,330	122,694
1999	1998	43,891	68,874	8,648	121,413
2000	1999	42,340	65,444	8,542	116,326
2001	2000	35,467	64,295	8,500	108,262
2002	2001	27,323	37,336	7,202	71,861
2003	2002	6,746	17,890	0	24,636
2004	2003	4,519	15,964	0	20,483
2005	2004	3,896	13,312	0	17,208
2006	2005	3,366	10,921	0	14,287
2007	2006	3,054	10,081	0	13,135
2008	2007	3,212	9,063	0	12,275
2009	2008	2,562	6,415	0	8,977
2010	2009	2,319	7,293	0	9,612
2011	2010	2,514	7,223	0	10,137

Ad Valorem Tax on Severed Mineral Interest

(M.S. 272.039, 272.04, 273.165)

Definition

Severed mineral interests are those separately owned from the title to surface interests in real estate. Severed mineral interests are taxed under Minnesota law at 40 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 $3.20 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 40 cents per 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 in this manner: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate of each taxing district bears to the total surface tax rate in the area; and 20 percent to the Indian Business Loan Account in the state treasury for business loans made to Indians by the Department of Employment and Economic Development.

The registration and taxation of severed mineral interests is a county function. Severed mineral interests are registered with the county recorder in the county where the interest is located. The county auditor sends a tax statement similar to any other real estate interest. The tax is normally collected in two increments payable in May and October. If the tax is less than $50, the taxpayer is required to pay in full with the May payment.

Nonpayment Penalty: Forfeiture

The eventual penalty for not paying the tax is forfeiture. Policies vary somewhat among counties. Specific questions about the tax, interest or penalties should be directed to the county recorder and auditor in the county where the minerals are located.

Tax Imposed

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners 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* (M.S. 93.52). Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state (M.S. 93.55).

History of Litigation

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 U.S. Supreme Court refused to hear an appeal requested by the plaintiffs. Shortly after this decision, the 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.

Figure 38

Tax Collection and Distribution

Period ending	80% retained by local government	20% payment to Indian Business Loan Account	Total collections of affected counties
Dec. 31, 2002	707,716	176,929	884,645
Dec. 31, 2003	461,456	115,364	576,820
Dec. 31, 2004	342,468	85,617	428,085
Dec. 31, 2005	542,524	135,631	678,155
Dec. 31, 2006	341,884	85,471	427,355
Dec. 31, 2007	451,904	112,976	564,880
Dec. 31, 2008	433,578	108,395	541,973
Dec. 31, 2009	463,472	115,868	579,340
Dec. 31, 2010	448,864	112,216	561,080

In 1988, the legislature amended the law to allow the commissioner of the Minnesota Department 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 1983 case, the Minnesota Supreme Court ruled 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 U.S. Supreme Court denied a petition by the State of Minnesota to review the case.

DNR Lease

If someone buys a DNR mining lease of 3 or more years duration, the severed mineral interest tax of 40 cents per acre applies. More detail is available on page 52 (5th paragraph) under Ad Valorem Tax.

Indian Business Loan Account

The 20 percent portion of the severed mineral interest tax that is allocated to the Indian Loan Program is reported by the county auditors on the *Severed Mineral Interest Return*. Normally, the form is submitted twice each year to correspond with payment of property taxes.

The money deposited in the severed mineral interest account is distributed to the Indian Loan Program at the end of each month.

A copy of the *Severed Mineral Interest Return* form is below:

Figure 39

MINNESOTA· REVENUE

Severed Mineral Interest Return

Print or type

County	Minnesota tax ID
Contact Person	Phone

Year — For the period (check one): January 1 to June 30 (due July 30) — July 1 to December 31 (due January 30)

Tax

1 Total severed mineral interest collected . . . . **1** ______

2 Multiply line 1 by 20% (.20). PAY THIS AMOUNT as the state's share of the tax due . . . . **2** ______

Sign here

I declare that this return is correct and complete to the best of my knowledge and belief.

Authorized signature	Title	Date	Daytime phone

Mail to: Minnesota Revenue, Mail Station 3331, St. Paul, MN 55146-3331
Send your payment with this return.

Department of Revenue

The processing and payment of the severed mineral interest tax is handled by the Special Taxes Division of the Minnesota Department of Revenue. Phone (651) 556-4721

Loan Program

The Indian Business Loan Program is administered by the Department of Employment and Economic Development, 500 Metro Square, 121 7th Place East, St Paul, MN 55101. Phone: (651) 259-7428.

Taxes on Other Mining and Exploration

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore. *Figure 40* identifies each tax by statute number and references each of them in this publication.

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

Figure 40

Index of Other Mining/Exploration Taxes

Tax	Current laws	Mining Tax Guide Page No.
Ad valorem tax (smelter and plant facilities only)	M.S. 272 and 273	Page 53
Net proceeds tax	M.S. 298.015-298.018 — 2%	Page 54
Occupation tax	M.S. 298.01 — 2.45%	Pages 30 and 55
Sales and use tax	M.S. 297A — 6.875%	Pages 42 and 55
Severed mineral interest	M.S. 272.039, 272.04, 273.165	Page 51
Withholding tax on royalty payments	M.S. 290.923 — 6.25%	Pages 39 and 55

Ad Valorem Tax (M.S. 272-273)

The 1991 legislature amended the definition of real property in M.S. 272.03, Subd. 1, (c)(i), to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under Chapter 298. 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. The exemption was further clarified by 2005 legislature in M.S. 272.02, Subd. 73, Par. (b). Companies mining any of the minerals listed are subject to property tax like other businesses, such as taxation of land and building values.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not subject to ad valorem tax*. In 2005 the St. Louis County assessor indicated that new large buildings were typically valued at $26 to $32 per square foot for ad valorem tax purposes. Storage buildings could be assessed as low as $10 or $14 per square foot. Tax rates are set by the county, local communities and school districts according to state law, and the tax is administered and collected by the county. There is also a statewide property tax levy set by the legislature which applies to commercial-industrial and some other types of property.

Minnesota's property taxes are computed as follows:
For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate to obtain gross tax capacity. *See class rate chart*. The first $150,000 of value is 1.5 percent while a 2 percent rate applies over $150,000. To determine the tax, the product of the market value and class rate must be multiplied by the local tax rate plus the 49.043 percent state general property tax rate for taxes payable in 2011. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates payable in 2011 varied from a low of 83 percent to a high of approximately 267 percent. If a referendum tax is passed, the referendum rate times the full market value must be added.

CLASS RATES

	Over $150,000	First $150,000
Payable 2005	2.00%	1.50%
Payable 2006	2.00%	1.50%
Payable 2007	2.00%	1.50%
Payable 2008	2.00%	1.50%
Payable 2009	2.00%	1.50%
Payable 2010	2.00%	1.50%
Payable 2011	2.00%	1.50%

Special policies issued by the Minnesota Department of Natural Resources (DNR) apply to metallic mineral leases (Minn. Rules, parts 6125.0100 - .0700). The Commissioner of Revenue has advised all county auditors and assessors that leases issued by the DNR constitute a taxable interest in real estate (M.S. 272.01, Subd. 2[a] and [b]). The taxes are to be assessed and collected as personal property taxes and do not become a lien against the real property. The commissioner further advised that when activities under the leases during the initial years are limited to exploration, the tax should not exceed the severed minerals interest tax. For all taxes levied in 1994 and thereafter, the tax should not exceed 40 cents per acre while the lease activities constitute exploration. Specific leases may vary, but the tax is to be determined based on the number of acres made available to the lessee and the fractional interest, if any, that is leased.

Contact the DNR, Minerals Division, to determine the status of activities under any state metallic minerals lease.

Net Proceeds Tax (M.S. 298.015-298.018)

A person engaged in the business of mining shall pay to the State of Minnesota for distribution as provided in section 298.018 a net proceeds tax equal to two percent of the net proceeds from mining in Minnesota. The tax applies to all ores, metals and minerals mined, extracted, produced or refined within the State of Minnesota, except for sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore and taconite concentrates. 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 Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

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 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 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

The net proceeds tax was designed to apply to mining and beneficiation, generally to the point of a saleable product. In the case of some hydrometallurgical processes, the saleable product may be a refined metal.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as deductions. The 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 Minnesota;

— research expense prior to production;

— reserve for reclamation costs after production ends; and

— 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, per Section 167 of the Internal Revenue Code;

— transportation of minerals, if the expense is included in the sales price;

— administrative expense inside Minnesota;

— exploration, research, or development expense in Minnesota is deductible in the year paid;

— 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; and

— reclamation costs paid in a year of production.

The carryback or carryforward of deductions is not allowed.

Distribution

The net proceeds tax on minerals and energy resources mined or extracted within the taconite asistance area must be distributed according to the formula provided by M.S. 298.018. Tax paid on minerals and energy resources mined outside the taconite assistance area is deposited in the state general fund. A summary of M.S. 298.018 distribution is listed:

(1) 5 percent to the city or town where the minerals are mined or extracted

(2) 10 percent to the Municipal Aid Account

(3) 10 percent to the school district where mining or extraction occurred

(4) 20 percent to the Regular School Fund (15.72 cents)

(5) 20 percent to the county where mining or extraction occurred

(6) 20 percent to Taconite Property Tax Relief, using St. Louis County as fiscal agent

(7) 5 percent to the IRRRB

(8) Five percent to the Douglas J. Johnson Economic Protection Trust Fund

(9) 5 percent to the Taconite Environmental Protection Fund

The proceeds must be distributed on July 15.

Occupation Tax-Corporate Income Tax (M.S. 298.01)

All mining companies, ferrous or non-ferrous, are subject to the Minnesota Occupation tax. Please refer to page 30 for a general overview of the occupation tax on taconite and iron ore.

Although gross income for tax is calculated differently for non-ferrous minerals, the section "Occupation Tax Return" applies to all mining. Also note that the alternative minimum tax was repealed for mining after December 31, 2005.

For more information about the occupation tax, contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Withholding Tax on Royalty (M.S. 290.923)

Beginning Jan. 1, 2001, all persons or companies paying royalties are required to withhold Minnesota income tax from royalty payments (6.25 percent) and remit the withholding tax and applicable information to the Minnesota Department of Revenue. See the section on *Income Tax Withholding on Mining and Exploration Royalty*, page 39.

Sales and Use Tax (M.S. 297A)

All firms involved in the mining or processing of minerals are subject to the 6.875 percent sales and use tax on all purchases, except those qualifying for the industrial production exemption. This exemption covers items that are used or consumed in the production of *tangible* personal property to be ultimately sold 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 classifications. Any new mining and/or processing facility would qualify for a refund of the 6.875 percent sales or use tax paid on capital equipment used to manufacture, fabricate, mine or refine tangible personal property ultimately sold at retail. For more information, see page 42 and contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

The specific exemption of mill liners applies only to the taconite industry. Purchases of liners or lining materials by other mining operations would be subject to sale and use tax unless they qualify for the industrial production exemption.

Mining Employment and Wages

Figure 41

Year	Mines	Employed	Wages
2010	7	3,761	$238.44

Information from the annual St. Louis County Mine Inspector Report. Because of different wage rates per individual contracts, the example rate represents one of the mines.

Glossary of Terms

Acid pellets — Taconite pellets comprised of iron, oxygen and silica held together by a binder such as bentonite (clay) or peridor (organic).

Agglomeration — The term describing the preparation and heat treatment used to prepare iron ore pellets or other iron ore products for shipment and use in a blast furnace.

Arms-length transaction — A sale of iron ore or pellets representing a true free market transaction when the buyer normally does not have an ownership or other special relationship with the seller.

BOF — Basic oxygen furnace — A steel-making furnace invented in Austria. It replaced open hearth furnaces in the 1960s. It is currently the standard furnace used by the integrated steel producers in the United States.

Beneficiation — The process of improving the grade by removing impurities through concentrating or other preparation for smelting, such as drying, gravity, flotation or magnetic separation. In taconite operations, this includes the first stage of magnetic separation and converting the concentrate into taconite pellets for use in making steel.

Concentrate — The finely ground iron-bearing particles that remain after separation from silica and other impurities.

Douglas J. Johnson Economic Protection Trust Fund — Often referred to as the 2002 Fund—A portion of taconite production tax revenues is allocated to this fund with the intent to use the funds after the year 2002 to diversify and stabilize the long-range economy of the Iron Range.

DRI — Direct reduced iron — A relatively pure form of iron (usually 90 percent + Fe), which is produced by heating iron ore in a furnace or kiln with a reducing agent such as certain gases or coal.

Dry weight — The weight of iron ore or pellets excluding moisture. For pellets, the dry weight is normally 1 to 2 percent less than the natural weight.

EF, EAF — Electric Arc Furnace — A furnace in which an electric current is passed through the charge. These furnaces are much smaller than the conventional BOFs used by the integrated steel producers.

Fe unit — Commonly referred to as an iron unit. An iron unit is a term of measurement denoting one ton containing 1 percent iron. Iron ore and taconite produced in the United States is measured in long tons (see definition). One long ton of taconite containing 65 percent iron also contains 65 *long ton* iron units.

Historically, this measurement was and is used for the selling price quoted in cents per iron unit. One example is a currently published price of acid pellets FOB mine at 37.344 cents per dry gross ton iron unit *or* $.37344 per iron unit.

Fiduciary — An individual or organization holding something in trust for another. Sales tax collection, for example, establishes a fiduciary relationship between the collector and the State of Minnesota.

Fluxed pellets — Taconite pellets containing limestone or another basic flux additive. Fluxed pellets eliminate the need to add limestone in the blast furnace, improving productivity and quality. Adding flux reduces the iron content of a pellet. Fluxed pellets, as used in this guide, mean pellets containing 2 percent or more limestone or other flux.

Partially fluxed pellets — Fluxed pellets containing 1.99 percent or less limestone or other flux additive.

Gross Domestic Product Implicit Price Deflator (GDPIPD) — An index maintained by the U.S. Department of Commerce measuring inflation in the overall economy. The taconite production tax rate is adjusted annually based on the change in this index. For producers subject to taconite production tax under the other iron bearing material clause, taxable tons are current year production only.

Integrated steel producer — Term used to describe steel companies that produce steel by starting with raw iron ore, reducing it to molten iron in a blast furnace, and producing steel with a BOF, open hearth, or electric furnace.

Lake Erie value — The traditional and quoted price of iron ore from the earliest days of iron ore mining in Minnesota and Michigan. This price per iron unit included delivery, mainly rail and lake transportation, from the mine to a Lake Erie port.

This was the starting point for occupation tax since its 1921 beginning. It was the standard method of pricing domestic iron ore and taconite for occupation tax until the mid-1980s (see Mine Value).

Long ton — The standard unit for weighing iron ore and taconite in the United States. A long ton equals 2,240 pounds.

M.S. 298.225 — A Minnesota statute (law) guaranteeing the taconite production tax aids received by municipalities, counties, schools and the IRRRB. The aid levels are adjusted according to a sliding scale based on production levels.

Metric ton — Standard unit for weighing iron ore and taconite in most areas of the world. A metric ton equals 1,000 kilograms or 2,204.62 pounds.

Mine value — The value of iron or pellets at the mine. This became the starting point for occupation tax in 1987. This value per iron unit *does not* include any rail or lake transportation beyond the mine.

Mini mill — A small steel mill using an electric furnace that produces steel from scrap iron.

Natural ore — Iron ore that can be fed to a blast furnace with less complicated processing than taconite requires. Natural ore typically contains 50 percent +Fe (iron) in its natural state.

Natural weight — The weight of iron ore or pellets including moisture.

Net proceeds tax — A tax equal to 2 percent of net proceeds from mining. Net proceeds are determined by subtracting certain basic deductions such as labor, equipment, supplies and depreciation from gross proceeds or sales.

Non-equity sales — See Arms-length transaction.

Open hearth — An obsolete steel making furnace still used in some Eastern European and Third World countries. No open hearth furnaces are presently operating in the United States.

Pellet chip — Broken pellets often cannot be sold as pellets and instead are sold at a reduced price for sinter plants and other uses. For occupation tax purposes, chips are defined as *individual shipments or stockpiles containing at least 85 percent of pellet chips smaller than one-fourth inch*. Such chips cannot be shipped or commingled with regular pellets.

For occupation tax purposes, pellet chips are valued at 75 percent of the value of the unbroken pellets.

Percentage depletion — A taxable income *deduction in the form of an allowance* representing a return on capital investment on a *wasting* asset subject to a gradual reduction in reserves. This deduction applies to income derived from various mining or oil and gas properties. For iron ore, the *deduction* is a flat percentage of 15 percent of income from the iron ore only mined on a specific property. This deduction, however, cannot exceed 50 percent of taxable income from the property computed without the depletion deduction.

Range Association of Municipalities and Schools (RAMS) — An association representing Iron Range cities, towns and schools receiving any funding from the taconite production tax. An office is maintained in Buhl, Minn.

Region 3— Koochiching, Itasca, Aitkin, Carlton, St. Louis, Lake and Cook counties.

Royalty — A share of the product or profit reserved by the owner for permitting another to use the property. A lease by which the owner or lessor grants to the lessee the privilege of exploring, mining and operating the land in consideration of the payment of a certain stipulated royalty on the mineral produced.

Short ton — Standard for weighing many commodities in the United States. It equals 2,000 pounds.

Steel Mill Products Index (SMPI) — A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the U.S. Department of Labor. It is part of the formula used to determine a mine value for occupation tax purposes each year.

Taconite — Ferruginous chert or ferruginous slate in the form of compact, siliceous rock in which the iron oxide is so finely disseminated that substantially all of the iron-bearing particles are smaller than 20 mesh.

It is not merchantable in its natural state, and it cannot be made mechantable by simple methods of beneficiation involving only crushing, screening, jigging, washing and drying or any combination thereof. (MS 298.001, Subd. 4)

Tailing — Small rock particles containing little or no iron, which are separated during various stages of crushing, grinding, and concentration. Most of the separation is done with magnetic separators. Silica is the main mineral constituent of tailings.

Taxable tons — The *three-year average* of the current and prior two years production. The taconite production tax is based on taxable tons. The weight is on a dry basis without any flux additives. For other iron bearing material subject to the taconite production tax, only the current year is used.

Mining Industry Tax Calendar

January

– 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 Employers Quarterly Withholding Return, due

Sales and use tax

– Electronic funds transfers (all months)

14 Payments must be made

25 Return mailed to St. Paul, MN

February

1 Taconite Production Tax Report due from companies

15 Taconite production tax determinations mailed to companies

– Printout listing 100% production tax payment sent to county auditors

– School bond payment schedule mailed to Itasca, Lake and St. Louis counties

– Notice of taconite production tax aids mailed to recipients

24 Taconite production tax payment (50%) due in county offices by electronic fund transfer

25 Distribution of taconite production tax by counties (collected February 24)

28 Form MW-6, Minnesota Annual Reconciliation of Income Tax Withheld due

28 Royalty/Withholding Tax Paid Report, MT2-RW, due

March

1 Taconite Municipal Aid amounts mailed to cities or to RAMS

– Occupation tax forms mailed to companies

April

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 Ad valorem tax present worth estimates mailed to companies

30 Form MW-1, Minnesota Employers Quarterly Withholding Return, due

May

1 Occupation tax return and payment due

15 First half of property tax on taconite railroad property due to counties

20 Ad valorem tax hearing held on first business day after May 20th

31 Production Cost Summary Tax Report (goldenrod form) due

June

30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors

July

1 Comissioner of Revenue certifies amount of Taconite Municipal Aid to municipality

15 Taconite referendum distribution to school districts of taconite production tax made by the counties

31 Form MW-1, Minnesota Employers Quarterly Withholding Return due

August

1 Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e.: eight-month period or monthly

24 Taconite production tax payment (remaining 50%) due in county offices by electronic funds transfer

25 Distribution of taconite production tax by counties (collected August 24)

September

15 Taconite Municipal Aid account funds distributed by counties

– October 10th estimate forms mailed to companies

October

10 Taconite production tax estimates due from companies

15 Second half of property tax on taconite railroad property due to counties

31 Form MW-1, Minnesota Employers Quarterly Withholding Return, due

November

1 Letters sent to six counties and the IRRRB to verify their electronic funds transfer data

December

1 Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors

1 Production tax forms mailed to companies

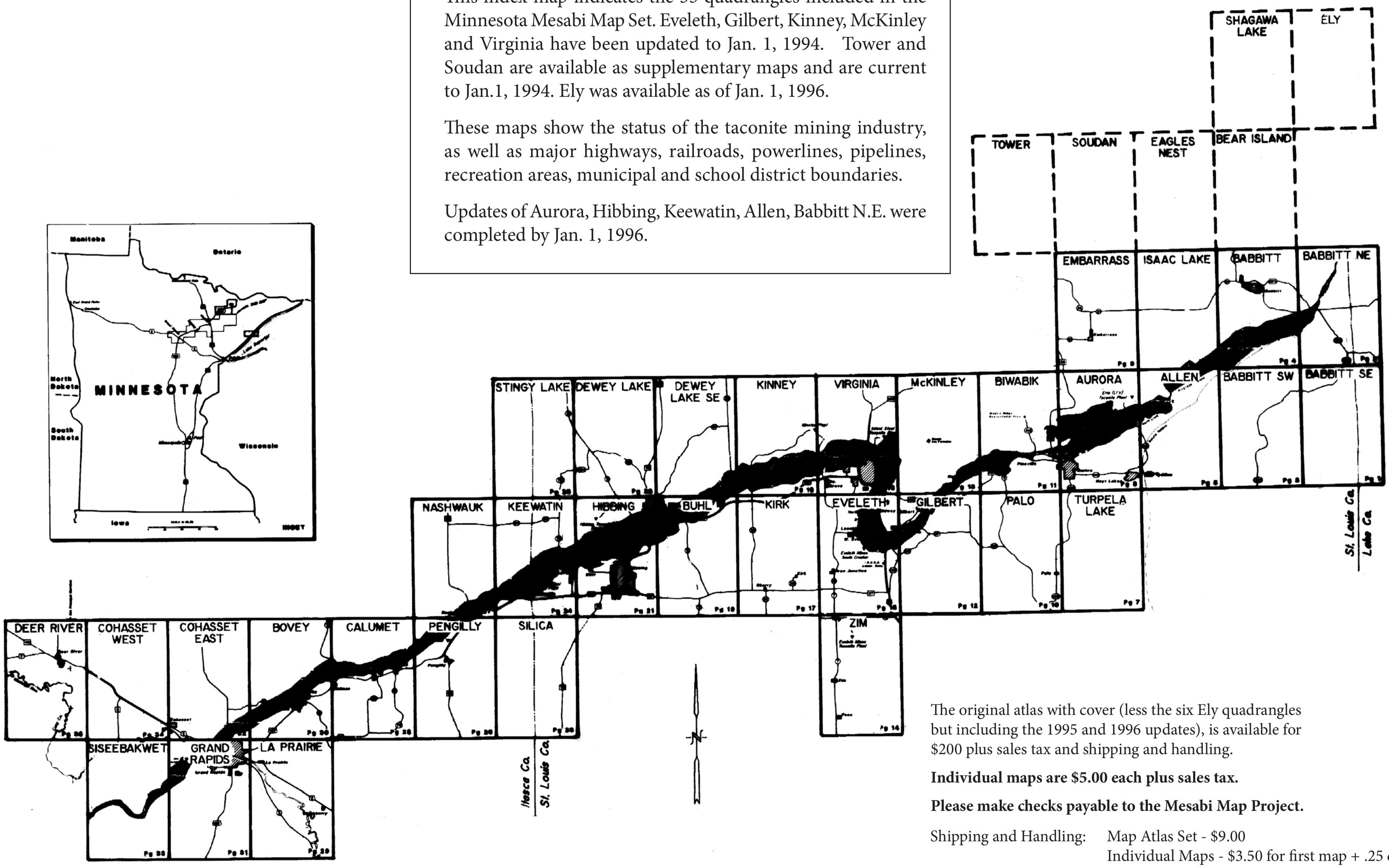
30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies

Index Map - Minnesota Mesabi Map Set

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set. Eveleth, Gilbert, Kinney, McKinley and Virginia have been updated to Jan. 1, 1994. Tower and Soudan are available as supplementary maps and are current to Jan.1, 1994. Ely was available as of Jan. 1, 1996.

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

Updates of Aurora, Hibbing, Keewatin, Allen, Babbitt N.E. were completed by Jan. 1, 1996.



The original atlas with cover (less the six Ely quadrangles but including the 1995 and 1996 updates), is available for $200 plus sales tax and shipping and handling.

Individual maps are $5.00 each plus sales tax.

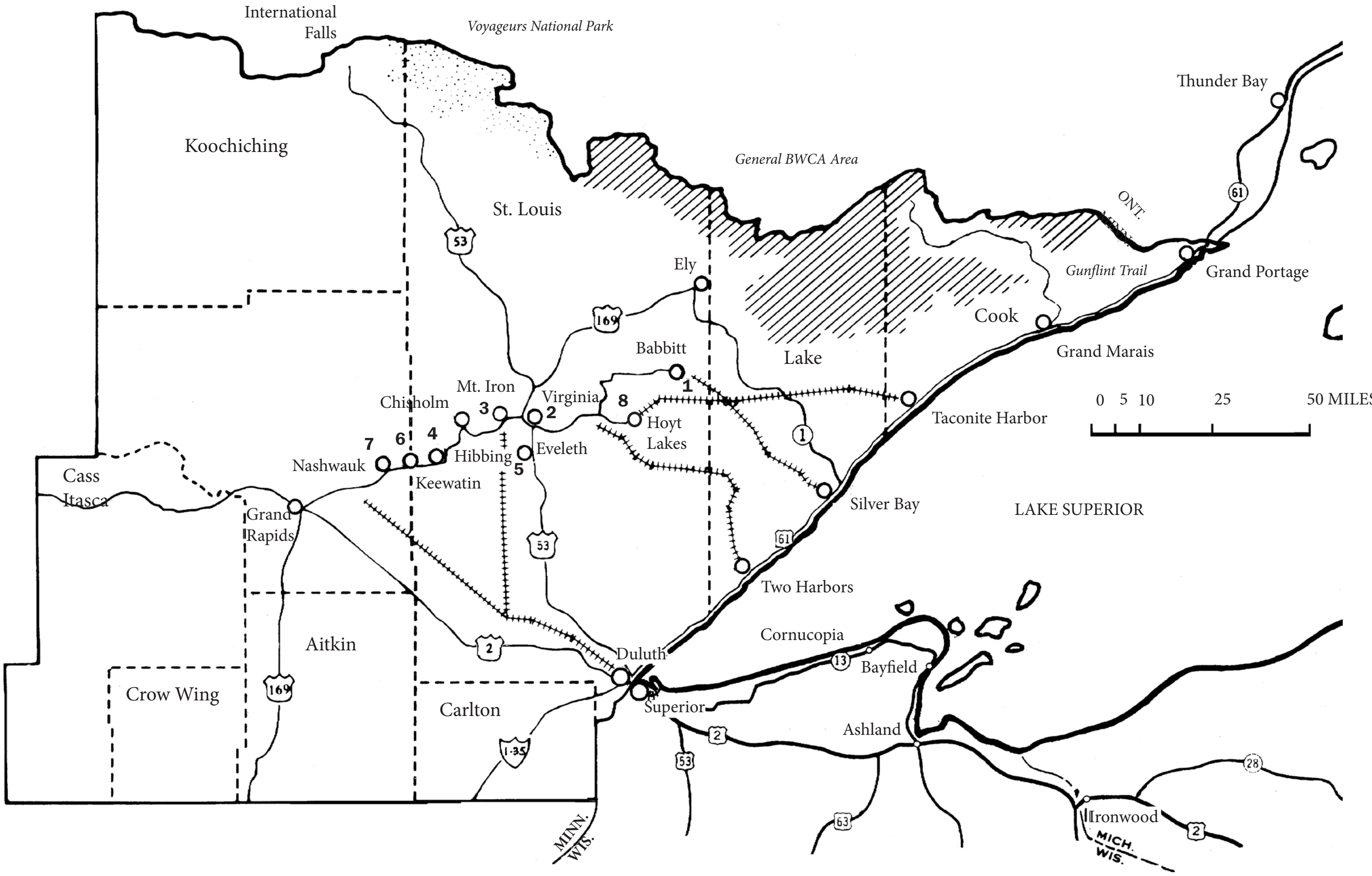
Please make checks payable to the Mesabi Map Project.

Shipping and Handling: Map Atlas Set - $9.00
Individual Maps - $3.50 for first map + .25 cents for each additional map up to 9 maps (First Class Mail).

Orders can be placed with the Minnesota Department of Revenue, Minerals Tax Office, 612 Pierce Street, Eveleth, MN 55734.
Phone (218) 744-7424, Fax (218) 744-7421.

Map of Northeastern Minnesota

Taconite Company Locations
Ownership and General Information



		Effective Capacity* —(million tons)
1.	**NORTHSHORE MINING COMPANY** Owner: Cliffs Natural Resources, Inc. (100%) Cleveland, Ohio	4.7
2.	**ARCELORMITTAL** Owner: ArcelorMittal (100%) East Chicago, Indiana	2.8
3.	**MINNTAC PLANT** Owner: USS Corporation (100%) Pittsburgh, Pennsylvania	15.0
4.	**HIBBING TACONITE COMPANY** Cliffs Natural Resources, Inc., Managing Agent Owners: ArcelorMittal (62.3%) East Chicago, Indiana Cliffs Natural Resources, Inc. (23%) Cleveland, Ohio U S Steel Cananda (14.7%) Hamilton, Ontario	8.5

		Effective Capacity* (million tons)
5.	**United Taconite Company LLC** Owners: Cliffs Natural Resources, Inc. (100%) Cleveland, Ohio	4.3
6.	**KEEWATIN TACONITE COMPANY** Owner: USS Corporation (100%) Pittsburgh, Pennslyvania	5.5
	TOTAL EFFECTIVE CAPACITY:	**40.8**
	Other:	
7.	**Magnetation, Inc.**	
8.	**Mesabi Nugget Delaware LLC** Steel Dynamics (81%) Kobe Steel (19%)	**0.5**

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

The ownership percentages shown are the ultimate percentages controlled by parent steel and mining companies.
In some instances, various other partnerships and subsidiaries are listed on legal corporate documents.