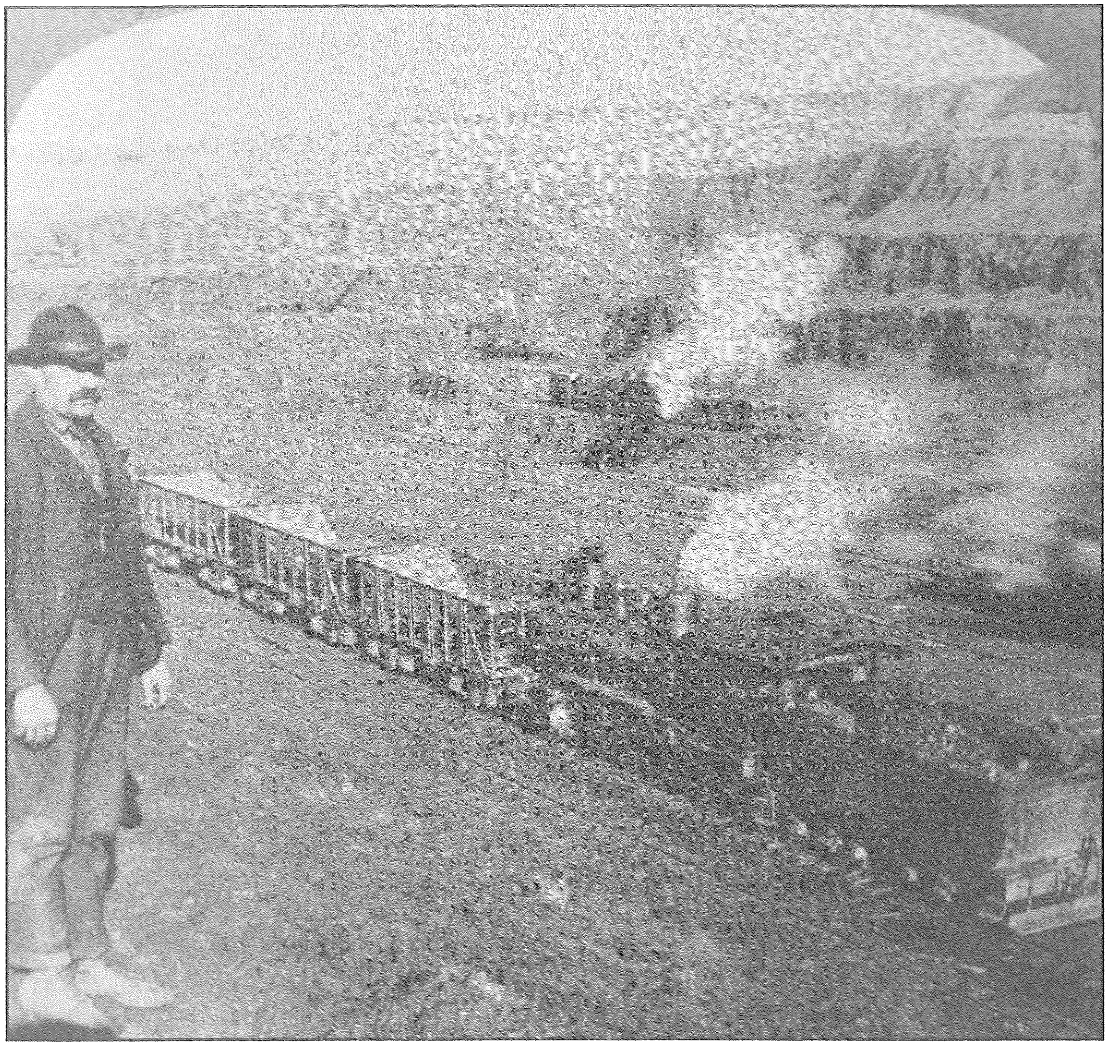
Guide to Minnesota Mining Taxes



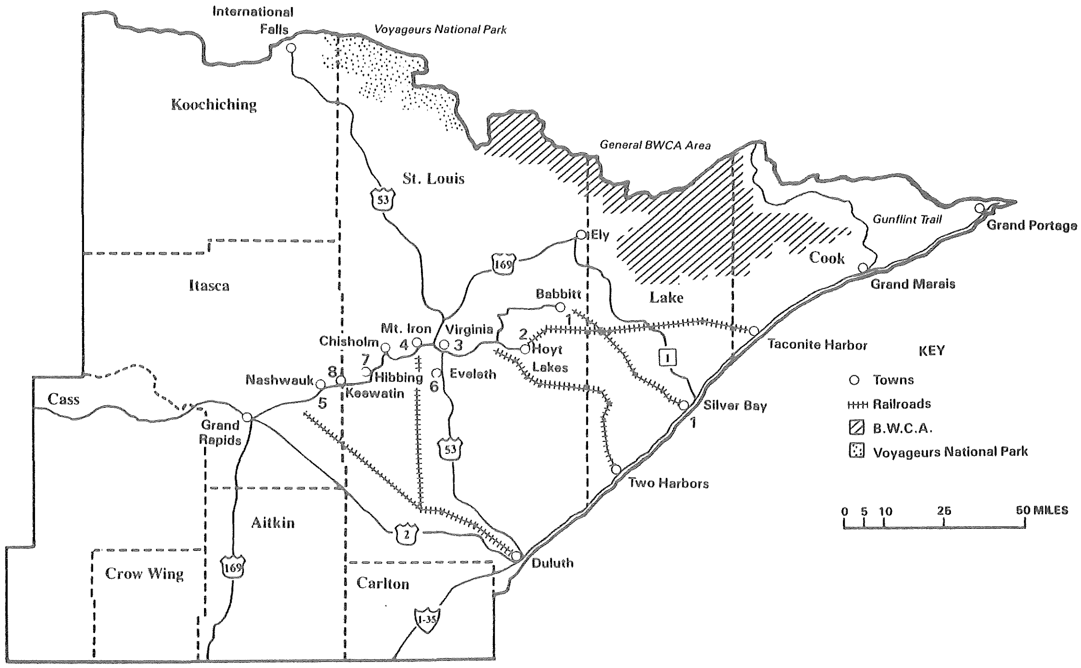
Open Pit Mining, Hibbing, ca. 1906

Department of Revenue
Minerals Tax Office

December 1986

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



		Annual Capacity (million tons)
(1)	**RESERVE MINING COMPANY** No Managing Agent Owners: Armco, Inc. (50%) LTV Steel (50%)	9.6(a)
(2)	**ERIE MINING COMPANY** Pickands Mather Services, Inc., Managing Agent Owners: LTV Steel (100%)	11.0(b)
(3)	**MINORCA PLANT** Owner: Inland Steel Mining Co. (100%)	2.0
(4)	**MINNTAC PLANT** No Managing Agent Owner: USX Corporation (100%)	18.5
(5)	**BUTLER TACONITE COMPANY*** M. A. Hanna Company, Managing Agent Owners: Inland Steel Mining Co. (38%) Itasca Pellet Co. (62%) Itasca Pellet Ownership: M. A. Hanna Co. (60.5%) (37.5%) Wheeling-Pittsburgh Steel (39.5%) (24.5%) Butler Taconite Company ceased production on June 28, 1985.	- 0 -
(6)	**EVELETH MINES*** Oglebay-Norton Co., Managing Agent Owners: Eveleth Taconite Co., 2.3 million tons Rouge Steel Co. (Ford) (85%) (31.7%) Oglebay Norton Co. (15%) (18.4%) Owners: Eveleth Expansion Co., 3.7 million tons Armco, Inc. (56"5 (35.1%) Stelco, Inc. (23.5%) (14.8%) Oglebay Norton Company (20.5%) (see above)	6.0
(7)	**HIBBING TACONITE COMPANY** Pickands Mather Services, Inc., Managing Agent Owners: Bethlehem Steel Co. (70.3%) Pickands Mather & Co. (15%) The Steel Company of Canada, Ltd. (14.7%)	8.1
(8)	**NATIONAL STEEL PELLET COMPANY** M. A. Hanna Company, Managing Agent Owner: National Steel Corp. (100%) National Steel Corporation Ownership: National Intergroup (50%) Nippon Kokan KK (50%)	4.0
	Total Capacity (excluding Butler):	59.2

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

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

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

TABLE OF CONTENTS

This tax guide is intended to serve as a quick reference to Minnesota's mining tax structure as it exists today. This publication essentially updates previous publications entitled "Minnesota Mining Tax Guide," dated December 1982, December 1983, December 1984 and December 1985.

The original Minnesota Mining Tax Guide was published by the Department of Revenue Research Office in April 1977 and revised in July 1978.

The 1986 estimates for production tonnage and taxes were developed in September 1986 and do not necessarily coincide with the taconite companies' official October 10 estimate.

LIST OF TABLES

THE IRON ORE AND TACONITE MINING INDUSTRY IN MINNESOTA

Prior issues of the Minnesota Mining Tax Guide have reflected upon the history of mining in Minnesota and also looked at some potential new technologies for taconite mining and further processing in Minnesota.

The technologies still exist and are still being researched and evaluated. No decision has been made on building a semi-commercial demonstration plant for the Mesabi Metal Project. The hoped for federal funding for the K-R Process demonstration plat was not secured. However, other potential areas of funding are being explored and hope for this plant remains.

The year 1986 has proven to be a difficult year for the American steel industry and the related iron ore and taconite industries. Both LTV Steel and First Taconite, the Armco subsidiary which owns 50 percent of Reserve, filed for Chapter 11 Bankruptcy. The effect upon other steel producers and mining companies remains to be seen. The effect upon the Range communities is mitigated because of the three-year average upon which production tax is paid.

The 1987 legislature is expected to review all Minnesota tax laws, with the objective of tax simplification and tax reduction. This includes taxes on natural ore and taconite, as well as taxes on base and precious metals. The exact form of any law changes won't be known until the legislature adjourns in May 1987.

OUTLOOK

During 1986, the Governor of Minnesota appointed a task force to review all existing taxes on taconite, natural ore, base and precious metals, and energy minerals with a goal of tax reduction and tax simplification. This task force reviewed all existing taxes and made suggestions to the Governor for tax changes which would encourage exploration and development of other minerals and aid the existing taconite and natural ore industry.

The Governor is expected to recommend to the legislature major tax changes which both reduce and simplify taxes on all existing and potential minerals and mining operations in Minnesota.

The legislature is expected to pass some tax reform for minerals and mining which will make Minnesota more competitive with other states and make Minnesota taxes easier to understand.

Further information will be mailed to those currently exploring or holding exploration leases when the legislature does take such action. The 1987 legislative session runs from January to May.

Anyone who has not received such information by June 1987, and would like to know what tax changes have been passed, can contact the Minerals Tax Office. The address and phone number are located inside the back cover of this booklet.

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

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

Year	Total Productions (000's of Tons)	Percent of Total: Iron Ore	Percent of Total: Taconite	Total Employment (000's)
1955	67,893	98.0	2.0	15.7
1960	57,425	76.7	23.3	16.6
1965	52,466	63.8	36.2	13.0
1970	56,520	37.5	62.5	13.3
1975	51,067	20.1	79.9	12.8
1980	45,280	4.9	95.1	13.8
1981	51,033	3.3	96.7	13.9
1982	24,234	3.3	96.7	7.7
1983	26,024	3.3	96.7	6.5
1984	36,538	2.3	97.7	7.4
1985	34,726	4.2	95.8	6.7
1986 (est.)	27,000	3.1	96.9	5.6

Minnesota's share of total U.S. production has been consistently greater than 60 percent. Minnesota's share of total world production has been steadily declining. In 1950, Minnesota produced over 25 percent of the total world production of iron ore and taconite. By 1960, this had dropped to just over 11 percent and, in 1980, to 5.2 percent. It appears this new lower level may become permanent.

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

Year	Minnesota[1] Production Tons (000's)	Minn. % U.S.	U.S.[2] Production Tons (000's)	Minn. % World	World[2] Production Tons (000,000's)
1950	65,235	66.5	98,045	26.4	247
1955	67,893	65.9	103,003	18.7	363
1960	57,425	64.7	88,784	11.2	514
1965	52,466	60.0	87,439	8.6	611
1970	56,520	63.0	89,760	7.5	757
1975	51,036	64.8	78,866	5.8	888
1979	59,563	69.5	85,716	6.7	889
1980	45,281	65.0	69,613	5.2	877
1981	51,033	69.7	73,174	6.1	841
1982	24,234	68.4	35,433	3.2	769
1983	26,024	69.3	37,562	3.6	730
1984	36,538	71.3	51,269	4.6	789
1985	34,726	72.3	48,000*	4.3	799*

*Preliminary figures

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

TABLE 3
SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY (TACONITE AND IRON ORE)

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

TAX	1980	1981	1982	1983	1984	1985	1986 est.
Ad Valorem - Unmined Natural Ore (Year Assessed)	$ 3,689	$ 3,770	$ 3,545	$ 3,700	$ 3,326	$ 3,037	$ 3,000
Occupation - Taconite	13,808*	12,708*	3,348*	7,386*	29,915*	9,907*	5,000*
Natural Ore	1,000	1,232	719	499	442	394	300
Taconite Production	87,179	99,018	80,305	67,341	64,514**	65,092***	55,000****
Excise Tax (School Bonds)	138	183	176	824	775	782	780
Railroad Gross Earnings - Taconite	2,984	4,961	1,354	926	1,678	1,985	1,158
Royalty - Taconite	4,619	5,392	4,093	2,821	4,564	3,576	2,300
Natural Ore	713	429	619	445	536	454	300
Unmined Taconite (Year Assessed)	232	240	285	331	321	397	375
Sales & Use (Taconite Only)	9,982	9,799	7,828	5,765	7,110	6,477	4,600
TOTAL: (Taconite Only)	$118,942	$132,301	$97,389	$85,394	$108,879	$88,216	$69,213
TONS PRODUCED: (Taconite)	43,060	49,369	23,445	25,173	35,689	33,265	26,100
TOTAL TAXES PAID ON PER TON BASE: (Taconite)	2.76	2.68	4.15	3.39	3.05	2.65	2.65

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

** Actual amount collected after credits are applied. A $6.93 million credit was allowed due to a Minnesota Supreme Court Decision on production tax court cases. A $2.72 million credit was given to the Erie Mining Company as a result of tonnage corrections for the 1978-1983 production years. Also a $0.25 million credit was allowed for construction of a water filtration plant.

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

**** Estimated amount after credits applied. A $4.43 million credit will be allowed due to a Minnesota Supreme Court decision. Also, a $0.25 million credit will be allowed for construction of a water filtration plant.

TABLE 4

MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

Production Year	Unmined Taconite	Sales and Use[a]	Production	Occupation[a]	Royalty	Excise[b]	Railroad Gross Earnings[a]	Total Taxes	Total Tons Produced	Total Taxes Per Ton
1960	--	--	735,708	638,489	1,280,553	1,741,820	815,952	5,212,522	13,383,000	.39
1965	--	--	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	.32
1970	64,000	Not Avail.	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
1976	--	7,446,168	30,857,046	18,269,842	2,841,120	188,325	3,338,487	62,940,988	40,574,591	1.55
1977	--	7,375,115	48,757,124	3,190,408	2,626,141	182,745	1,509,773	63,641,306	26,371,588	2.41
1978	--	8,573,833	69,221,559	19,226,372	3,279,861	177,165	3,267,247	103,746,037	49,544,671	2.09
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39
1984	321,389	7,110,166	64,514,255 (c)	29,915,354 (d)	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787 (c)	9,906,688 (e)	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986(est.)	375,000	4,600,000	55,000,000 (c)	5,000,000	2,300,000	780,000	1,158,000	69,213,000	26,100,000	2.65

(a) Sales & Use Tax, Occupation Tax and Railroad Gross Earnings Tax have been used to reduce credits owed to the taconite companies as the result of the tax limitation imposed by the Taconite Amendment and M.S. 298.40. As a result, the actual collections of these taxes was significantly less than the amounts shown on this schedule. For the exact amounts of tax not collected, (1) due to the M.S. 298.40 limitation and, (2) to offset credits owed to taconite companies as a result of m.s. 298.40 and the Taconite Amendment, refer to the Occupation Tax section.

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

(c) After all credits have been applied. The 1984 production tax is based on the tonnage produced only in 1984--a change in the 1984 Minnesota Statutes. The 1985 production tax is based on the tonnage production average for 1984 and 1985. The 1986 production tax is based on the three-year average of production tonnage for 1984, 1985 and 1986.

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

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

TABLE 4A - LAKE ERIE VALUE (Historical Summary)

	NATURAL ORE				TACONITE				
	LAKE ERIE VALUE/TON	TRANSPORTATION COSTS ($/TON)			LAKE ERIE VALUE	LAKE ERIE	TRANSPORTATION COSTS ($/TON)		
Year	Mesabi Non-Bessemer	Mine to Boat	Boat to LLPort	Total Transportation	Cents Per Natural Iron Unit	VALUE ($/ton)(a)	Mine to Boat	Boat to LLPort	Total Trans-portation
1910	4.00	N/A	N/A	N/A	--	--	--	--	--
1920	6.55	N/A	N/A	N/A	--	--	--	--	--
1930	4.50	N/A	N/A	N/A	--	--	--	--	--
1940	4.45	N/A	N/A	N/A	--	--	--	--	--
1950	7.75	1.08(b)	1.52(b)	2.60(b)	--	--	--	--	--
1955	10.07	1.22(b)	1.92(b)	3.14(b)	--	--	--	--	--
1960	11.45	1.47	2.27(c)	3.74	--	--	--	--	--
1965	10.55	1.47	2.17(c)	3.64	25.20	16.38	1.47	2.17(c)	3.64
1970	10.80	1.74	2.31(d)	4.05	26.60	17.29	1.74	2.31(d)	4.05
1971	11.17	2.00	2.42(d)	4.42	28.00	18.20	2.00	2.42(d)	4.42
1972	11.17	2.00	2.42(d)	4.42	28.00	18.20	2.00	2.42(d)	4.42
1973	11.71	2.18	2.54(d)	4.72	29.10	18.92	2.18	2.54(d)	4.72
1974	13.97	2.56	3.24(c)	5.80	35.41	23.02	2.56	3.24(c)	5.80
1975	17.88	2.92	3.91(e)	6.83	46.02	29.91	2.92	3.91(e)	6.83
1976	19.61	3.25	4.29(e)	7.54	51.34	33.37	3.25	4.29(e)	7.54
1977	21.11	3.52	4.56	8.08	55.53	36.09	3.52	4.56	8.08
1978	22.02	3.66	4.95	8.61	58.51	38.03	3.70	4.97	8.67
1979	23.76	4.07	5.45	9.52	65.24	42.41	4.17	5.64	9.81
1980	26.87	4.82	6.42	11.24	72.89	47.38	4.86	5.84	10.70
1981	29.93	5.88	7.47	13.35	77.88	50.62	6.11	6.75	12.86
1982	32.53	7.13	8.06	15.19	86.90(f)	56.49	4.61(g)	8.08	12.69
1983	31.80	6.96	8.09	15.05	86.90(f)	56.49	4.94(g)	8.09	13.03
1984	31.53(h)	6.73	8.09	14.82	86.90(f)	56.49	4.98(g)	8.09	13.07
1985	31.53(h)	6.73	8.09	14.82	72.50(i)	47.12	4.98(j)	8.09(j)	13.07

(a) Based on a pellet containing 65% Natural Iron. The actual Lake Erie Value varies by pellet quality.
(b) Less 1/2 percent shrinkage plus three percent tax.
(c) Less 1/2 percent shrinkage.
(d) Less one percent shrinkage.
(e) Less 1/4 percent shrinkage.
(f) Industry prices used for occupation taxes. One company (P.M.) quoted a lower price (80.50) not used by the State.
(g) Includes four month winter storage at docks.
N/A - Not Available

(h) Fines.
(i) Quoted prices for companies varied from .594 at Lake Superior to .725 or .869 Lake Erie prices. Any price changes occurred in August or September 1986. The Commissioner of Revenue allowed all companies to use .725 for all of 1985.
(j) Rail freight quoted in Skillings: 4.98
Occupation Tax Allowance: 4.85
Lake freight quoted in Skillings: 8.37
Occupation Tax Allowance: 8.09

TACONITE PRODUCTION TAX

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

Prior to the 1940's, taconite had little value, but through preliminary work by the Mesabi Iron Company and from research by E. W. Davis the development of taconite was greatly assisted. In 1941, the legislature imposed a production tax on taconite and semi-taconite that was at the rate of five-cents-per-ton with an escalator equal to 0.1-cent-per-ton for each one percent that the iron content of the finished product exceeded 55 percent. The proceeds of this tax were shared equally by the state, the counties, the school districts, and the cities and townships at 25 percent each.

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

On January 9, 1984, the Minnesota Supreme Court released its decision on the so-called "Erie II" case in which the mining industry had contested the constitutionality of the taconite production tax. Although the State was upheld on most issues, the court ruled that the price index must be averaged when a three-year average of production tonnage was used. This change resulted in a credit to the industry of $17.9 million principal and $5.5 million interest. The credit will be paid back by not collecting an agreed upon amount of future production tax for each of the next five years--as specified in an "Agreement of Settlement" negotiated by a special legislative committee and the taconite industry, and formalized by court order.

The "Agreement of Settlement" contained the following provisions for computing the production tax:

A) The rate of production tax applicable to concentrates produced in taxable years 1985 and 1986 shall not exceed the rate determined under existing law for 1984 production. (The 1984 base rate--not including iron escalation--was $2.0475599 per taxable ton).

B) The production tax rate applicable to concentrates produced in 1987 shall be equal to the preceding year's tax rate, escalated by reference to the implicit price deflator (prepared by the Bureau of Economic Analyses of the United States Department of Commerce) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year.

C) Escalation of the tax rate by reference to iron content, as currently provided in M.S. 298.24, Subd. 1(b), is to be reduced as applied to concentrates produced in 1984 by one-half of the rate currently provided, and totally eliminated as to concentrates produced in 1985 and thereafter.

D) The averaging provision as set forth in M.S. 298.24, Subd. 1(c), in the current law shall be modified as follows:

1. There shall be no averaging applied in computing production tax liabilities for taxable year 1984.

2. The tax on concentrates produced in 1985 shall be computed on the average of the production for 1984 and 1985.

3. The tax on concentrates produced in 1986 and thereafter shall be computed on the average production for the current year and the previous two years.

The average production tax rate for 1984 was $2.11 per taxable ton after the price index escalation of 1.6380479 and the iron content escalation were applied. (This is a slight increase from the 1983 average rate of $2.05 per taxable ton.) The rate for the 1985 production year was approximately $2.05 per taxable ton ($2.047559).

Several major changes were made in the production tax distribution formula by the 1984 legislature for aids to be distributed in 1985. Perhaps the most significant change was that the old M.S. 298.225 aid guarantee formula was modified with a "shared risk" concept. When total production reaches 42 million tons, aid distributions are guaranteed at 100 percent of the amounts received in 1984 based on 1983 production. When production falls below 42 million tons, aid distributions are reduced proportionately at the rate of two percent for each million tons of production decline. This change protects communities which might be affected by long-term plant closures by distributing the risk Range-wide, while at the same time preserves some funding for the Northeast Minnesota Economic Protection Fund and the Taconite Environmental Protection Fund. Also, communities with a taconite plant which operated at a reduced level without shutting down did not have any aid guarantee under the old M.S. 298.225 formula.

An additional 1.5-cents-per-ton was allocated to the Economic Fund. Funding for Taconite Property Tax Relief was reduced from 25.75-cents-per-ton to 17.75-cents-per-ton. However, the order of computation of the taconite homestead credit was changed (the state homestead credit is now subtracted first on the property tax statement), thus reducing the total aid requirement for the Taconite Property Tax Relief fund. The total taconite property tax relief paid is expected to be in balance with available funding when the new formula is used.

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

In recognition of the severe financial problems facing the steel industry, the legislature reduced the tax rate from $2.05 per ton (in effect for production year 1985) to $1.90 per ton for production year 1986.

For 1987 and subsequent years, the $1.90 rate is escalated by the percentage increase in the implicit price deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The rate will not be increased for 1987 or 1988 production years provided that at least 33,000,000 tons are produced in 1987 and 34,000,000 tons in 1988.

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

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

Due to the continuing depression in the iron ore and steel industry, it is expected that the 1987 legislature will again examine taxes on the mining industry and the effects of declining revenues on affected Iron Range communities.

The proceeds of the 1985 taconite production tax (payable 1986) are distributed by statute as follows (<u>all figures are cents per taxable ton</u>):

M.S. 298.28, Subdivision 1.

1.		Taconite Cities and Town:		2.5
2.		Taconite municipal Aid Account:		12.3
3.		School Districts -		
	a.	Taconite schools (mining and/or concentrating in the district):	6.0	
	b.	School districts that qualify for taconite homestead credit in proportion to their levies:	23.0	
		Basic School District Total:		29.0
	c.	Taconite Referendum Fund:	(formula amount)	
4.		Counties -		
	a.	Taconite Counties:	15.5*	
	b.	Electric Power Plant		
	c.	Taconite Counties Road/Bridge:	4.0*	
		Counties Total:		19.5*
5.		Taconite Property Tax Relief:		17.75*
6.		I.R.R.R.B.:		3.0**
7.		Range Assn. of Municipalities and Schools:		0.2
8.		N.E. Minnesota Economic Protection Fund		1.5*

* These base year amounts were increased in 1979 and subsequent years by the rate of growth in the steel mill products index (base year 1977). For the 1985 production year, the county was 25.7-cents and road and bridge was 6.6-cents with escalation. The actual amount received by the county (29.6-cents), road and bridge (7.6-cents), and other funds per taxable ton was greater due to M.S. 298.225 aid guarantees.

** This base year amount was increased in 1981 and subsequent years (base year 1977). For the 1985 production year, the IRRRB was 5.0-cents with escalation.

1. TACONITE CITIES AND TOWNS

Each city or township in which mining and/or concentrating occurs (split 40 and 60 percent to each respectively) receives an equitable portion of the mining aid and/or concentrating aid. This split is determined either by a percentage of taconite reserves or a four-year average of production.

2. TACONITE MUNICIPAL AID ACCOUNT

The Taconite Municipal Aid payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. The remainder is then distributed to the cities and townships in the taconite relief area in direct proportion to the latest federal population census. The conditions necessary for a municipality to qualify for municipal aid are identical to the qualifications for the 66 percent taconite property relief listed under part (5)a of the Production Tax section of this Mining Tax Guide. The statutory references governing Municipal Aid are M.S. 273.134 (qualifying municipalities), M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282.

3a. SCHOOL DISTRICT $.06 FUND

Each school district in which mining and/or concentrating occurs (split 40 and 60 percent to each respectively) receives an equitable portion of the mining aid and/or concentrating aid. This split is determined either by a percentage of taconite reserves or a four-year average of production.

b. SCHOOL $.23 FUND

Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. The remainder is then distributed to the school districts in direct proportion to school district tax levies (all school districts in the taconite relief area).

c. TACONITE REFERENDUM FUND (Formerly School Fund Index)

The Taconite Referendum Fund is the escalated portion of the 23-cent school fund using the steel mill products index escalation factor. Payments were first made from this fund in 1982 and are made on July 15 of each year. Taconite school districts qualify for an additional $150 per pupil unit over and above state aids by passing a 1.75 mill levy referendum. The school district will then receive additional taconite aid in the amount of $150 per pupil unit less the amount raised locally by the 1.75 mills.

4a. TACONITE COUNTIES

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

b. ELECTRIC POWER PLANT

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county (currently only Erie--Cook County) other than the county in which the mining and concentrating processes are conducted, one cent of the 15.5-cents-per-ton (for that company) shall be distributed to the county in which the power plant is located (this one cent is not escalated).

c. TACONITE COUNTIES ROAD/BRIDGE

Each county receives a portion of the aid in the same manner as 1 - Taconite Cities and Towns, to be deposited in the county road and bridge fund.

5a. TACONITE PROPERTY TAX RELIEF

A total of $.1775 per ton escalated by the steel mill products index is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

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

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

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941 (but does not exceed 60 percent) or currently has a taconite mine, plant or electric generating facility, the taconite credit is 66 percent of the tax on that property. For taxes payable in 1984, the maximum credit is $475. Under current law, the credit increases $15 per year, which will make a maximum credit of $505 for taxes payable in 1986. If the property is not located in such a city or town, but is located in a school district containing such a city or town, the taconite credit is 57 percent of the tax on the property to a maximum credit of $420 for taxes payable in 1984. For taxes payable in 1986, the maximum credit for this property is $450.

Most of the other property tax credits that a property may be eligible to receive are deducted from the gross tax on the property before the Taconite Homestead Credit is determined. An example of this deduction is the Agricultural Credit which also reduces the tax on farm property. The 54 percent state homestead credit is now deducted prior to determining the Taconite Homestead Credit. The maximum credit under the 54 percent state-paid homestead credit is $650 for taxes payable in 1984.

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

The statutory references governing taconite property tax relief are contained in M.S. 273.134, M.S. 273.135, M.S. 273.136, and M.S. 298.28, Subd. 1, Clause (5). This credit is guaranteed by the N.E. Minnesota Economic Protection Fund as stated in M.S. 298.293.

b. ELECTRIC POWER PLANT

For any electric power plant located in another county (as described in 4b) .75-cents of the 17.75-cents-per-ton in the Taconite Property Tax Relief account shall be distributed to the county and school district in which the power plant is located with 25 percent going to the county and 75 percent to the school district. This .75-cents is escalated by the steel mill products index. (Only Erie Mining Company and Cook County are affected).

In addition to the preceding distribution, additional amounts are distributed as follows:

1. In 1978 and each year thereafter, there will be distributed to each city, town, school district, and county the amount that they received in 1977 from the distribution of the gross earnings tax on taconite railroads.

   Amount: $3,160,899

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

   Amount: $1,252,520

3. Beginning with the 1982 production year, a $240,000 payment is made by the Department of Revenue to School District 710 for payment of school bonds. An amount equal to four-cents-per-ton of Eveleth Mines production is subtracted from money otherwise payable to the Northeast Minnesota Economic Protection Fund. Any remaining amount required to equal $240,000 shall be paid as provided by M.S. 298.225.

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

5. The 1982 Legislature increased the taconite production tax credit to four-cents-per-gross-ton for school bonds. However, a credit of seven-cents-per-gross-ton is allowed for Independent School District 703, Mt. Iron. (In July 1985, the Mt. Iron and Buhl school districts consolidated into Independent School District No. 712). The school bond credits are subtracted from the amount which would otherwise be distributed to the Northeastern Minnesota Economic Fund. These credits are for bond payments made by the companies and are not collected or distributed by the Department of Revenue.

M.S. 298.225 - The recipients of the taconite production tax as provided in M.S. 298.28, Subdivision 1, Clauses (1) to (4), (5)(b), (7) and (8)(a), are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the distributed amount will be reduced proportionately at two percent per each 1,000,000 tons that the production is less than 42,000,000 tons. This aid guarantee is funded equally by the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The aid payments covered by the guarantee are listed as follows:

1. 2.5-cents City and Town Fund
2. 12.5-cents Taconite Municipal Aid
3. a) 23-cents School Fund
   b) 6-cents School District Fund
   c) Taconite Referendum Fund
4. a) 15.5-cents Taconite County Fund
   b) 4-cents Taconite County Road and Bridge Fund
5. a) Taconite Property Tax Relief is not covered by M.S. 298.225, but guaranteed separately by the Economic Fund as stated in M.S. 298.293
   b) .75-cents Electric Power Plant Fund (Erie-Cook County)
6. 3-cents Escalated to I.R.R.R.B.
7. .2-cents R.A.M.S.

PRODUCTION TAX "GRANDFATHER" AMOUNTS BASED ON PAST OCCUPATION TAX DISTRIBUTIONS

Some of the present production tax distributions are "grandfathered" amounts which, in the past, were distributed from the general fund based upon occupation tax collections. These distribution amounts became effective with the collection of the 1975 production tax. They are based upon amounts distributed in 1975 from the 1974 occupation tax. The amounts actually distributed are reduced consistent with the aid guarantee provisions of M.S. 298.225.

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

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

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on pages 9 and 10 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1986 are listed as follows: (NOTE: The $10,572,673 is split between the local municipalities, counties and schools based upon the current mill rates.)

Total Listed By County Area:

St. Louis County	$6,350,130
Itasca County	$2,304,100
Lake County	$ 694,278
Crow Wing County	$ 513,768
Aitkin County	$ 456,032
Cook County	$ 250,713
Koochiching County	$ 3,652
TOTAL PAID IN 1986:	$10,572,673

Total Listed By School District Area:

001-Aitkin	$ 474,352
166-Cook County	$ 250,713
182-Crosby/Ironton	$ 495,448
316-Coleraine	$ 546,983
318-Grand Rapids	$1,445,391
319-Hashwauk/Keewatin	$ 311,726
381-Lake Superior	$ 819,382
691-Aurora/Hoyt Lakes	$ 397,343
692-Babbitt	$ 194,982
693-Biwabik	$ 173,898
695-Chisholm	$ 568,022
696-Ely	$ 411,804
697-Eveleth	$ 550,273
699-Gilbert	$ 227,692
701-Hibbing	$ 1,448,379
706-Virginia	$ 979,409
708-Tower/Soudan	$ 205,520
710-St. Louis Cty.	$ 731,450
712-Mt. Iron/Buhl	$ 339,906
TOTAL PAID IN 1986:	$10,572,673

TABLE 5

AVERAGE DISTRIBUTION OF THE PRODUCTION TAX

(CENTS-PER-TON)

1986 DISTRIBUTION (1985 PRODUCTION YEAR) BASED ON 34,476,648 TAXABLE TONS

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.4
Taconite Municipal Aid	16.5
School Districts	50.7*
County	29.5
County Road and Bridge	7.6
Taconite Property Tax Relief	27.3
I.R.R.R.B.	9.1
R.A.M.S.	.3
Taconite Railroad Grand-father Amount	9.2
Taconite Environmental Protection Fund	26.7
N.E. Minnesota Economic Protection Fund	7.8
School Bond Credits & Payment	3.0
Filtration Plant Credit	.7
1985 Court Case Credits	13.0
	204.8

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

TABLE 6 -- SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1980	1981	1982	1983	1984	1985
City & Township	$ 1,353,460	$ 1,382,071	$ 1,361,734	$ 1,362,133	$ 1,192,100	$ 1,157,812
Taconite Municipal Aid	6,810,913	6,776,025	6,701,700	6,701,700	5,855,757	5,696,443
School District--Regular	3,304,789	3,383,849	3,336,407	3,336,709	2,920,098	2,836,169
School District Fund	12,735,853	12,670,617(a)	12,531,638(a)	12,531,638	10,967,343	10,651,894
Taconite Referendum Fund	- 0 -	4,198,133	3,866,675	3,867,247	3,958,435	4,000,678
County	10,809,240	11,891,939	11,756,167	11,814,390	10,437,393	10,194,573
County Road & Bridge	2,784,744	3,056,888	3,028,085	3,043,061	2,688,626	2,626,006
Taconite Prop. Tax Relief	17,351,585	19,317,006(a)	15,684,072(a)	13,261,767	8,884,109	9,398,881
State	480,280	550,897	544,853	544,853	343,974	- 0 -
I.R.R.R.B. ($.03 Indexed)	2,001,839	2,265,289	2,150,722	2,161,750	1,958,162	1,903,782
Range Association of Municipalities & Schools	110,747	110,181	108,972	108,972	95,003	92,271
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	- 0 -	- 0 -	240,000	240,000	240,000	240,000
Taconite Environmental Protection Fund	15,663,492	19,736,911	11,785,651	6,029,799	8,719,590	9,201,969
N.E. Minnesota Economic Protection Fund	9,358,171	9,265,064	2,793,123	(2,076,400)	1,840,246	2,677,890
TOTAL:	$87,178,532	$99,018,289	$80,303,218	$67,341,038(b)	$64,514,255(c)	$65,091,787(d)

* The production tax is collected and distributed in the year following production, e.g., the 1985 production tax was collected and distributed during 1986.

(a) Actual distribution payments differ due to overpayments made from the School District Fund from the 1985 production year.
(b) Total after school bond credits have been taken.
(c) Total after the school bond, filtration plant and Erie II court case and prior year tonnage correction credits have been taken.
(d) Total after the school bond, filtration plant and Erie II court case credits have been taken.

TABLE 7*--TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS--1986**

Cities & Townships	Mining & Concentrating	Taconite*** Railroad	Taconite Municipal Aid	Total
Aurora	$ 2,288	$ --	$ 148,921	$ 151,209
Babbitt	94,780	166,767	185,164	446,711
Biwabik	--	--	78,263	78,263
Bovey	--	--	44,557	44,557
Buhl	--	--	70,371	70,371
Calumet	--	--	25,704	25,704
Chisholm	--	--	324,999	324,999
Coleraine	--	--	61,163	61,163
Crosby	--	--	121,559	121,559
Ely	--	--	264,164	264,164
Eveleth	43,127	--	279,327	322,454
Franklin	3,603	--	1,480	5,083
Gilbert	--	--	150,491	150,491
Hibbing	249,977	--	1,183,373	1,433,350
Hoyt Lakes	158,047	152,153	253,529	563,729
Ironton	--	--	29,431	29,431
Keewatin	20,815	--	86,158	106,973
Kinney	5,117	--	24,498	29,615
Leonidas	2,902	--	5,207	8,109
Marble	--	--	41,488	41,488
McKinley	--	--	12,605	12,605
Mountain Iron	291,642	--	350,318	641,960
Nashwauk	12,666	--	84,632	97,298
Riverton	--	--	6,138	6,138
Silver Bay	91,074	152,706	209,124	452,904
Taconite	--	--	18,141	18,141
Trommold	--	--	4,604	4,604
Virginia	17,577	--	608,346	625,923
Balkan Township	--	--	51,189	51,189
Bass Brook Township	--	--	102,542	102,542
Bassett Township	--	11,745	--	11,745
Beaver Bay Township	--	12,565	--	12,565
Biwabik Township	--	--	56,669	56,669
Breitung Township	--	--	51,134	51,134
Crystal Bay Township	--	6,951	--	6,951
Fayal Township	3,354	--	119,203	122,557
Grand Rapids Township	--	--	174,228	174,228
Great Scott Township	8,406	--	34,013	42,419
Greenway Township	16,127	--	69,737	85,864
Irondale Township	--	--	45,872	45,872
Lone Pine Township	5,284	--	2,395	7,679
McDavitt Township	57,871	--	37,364	95,235
Nashwauk Township	14,681	--	51,612	66,293
Rabbit Lake Township	--	--	10,084	10,084
Schroeder Township	--	47,700	17,812	65,512
Silver Creek Township	--	20,612	--	20,612
Stony River Township	--	19,943	--	19,943
White Township	24,153	--	148,139	172,292
Wolford Township	--	--	9,591	9,591
Wuori Township	34,321	--	41,104	75,425
TOTALS:	$1,157,812	$591,142	$5,696,443	$7,445,397

* Does not include dollars from Taconite Property Tax Relief.

** All distributions in 1986 result from 1985 production year tax revenues.

*** Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions.

TABLE 8*--TACONITE PRODUCTION TAX DISTRIBUTION TO COUNTIES--1986**

County	Regular County 15.5-Cents Escalated	County Road & Bridge 4-Cents Escalated	Taconite Railroad	Total
Cook	$ 102,339	$ --	$187,190	$ 289,529
Itasca	555,644	143,396	--	699,040
Lake	798,551	206,086	243,034	1,247,671
St. Louis	8,738,039	2,276,524	354,153	11,368,716
TOTAL:	$10,194,573	$2,626,006	$784,377	$13,604,956

TABLE 9*--TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS--1986**

School Districts	$.06	$.23	Taconite Railroad	Taconite Referendum	Total
1 - Aitkin	$ --	$ 696,077	$ --	$ 136,965	$ 836,042
166 - Cook County	57,416(1)	298,398	427,383	52,036	826,233
182 - Crosby-Ironton	--	570,690	--	171,562	742,252
316 - Coleraine	88,307	480,149	--	264,732	833,188
318 - Grand Rapids	--	2,177,369	--	439,842	2,617,211
319 - Nashwauk-Keewatin(2,3)	144,334	262,169	--	126,994	533,497
381 - Lake Superior	218,577	627,569	552,774	363,082	1,762,002
691 - Aurora-Hoyt Lakes	384,804	428,660	345,802	237,487	1,396,753
692 - Babbitt	227,473	166,130	459,421	142,793	995,817
693 - Biwabik	57,967	233,877	--	59,783	351,627
695 - Chisholm	--	308,357	--	179,817	488,174
696 - Ely	--	285,133	--	135,993	421,126
697 - Eveleth	118,521	279,178	--	195,158	592,857
699 - Gilbert	--	165,354	--	93,714	259,068
701 - Hibbing	534,281	1,045,644	--	533,234	2,113,159
706 - Virginia	133,204	723,812	--	280,765	1,137,781
708 - Tower-Soudan	--	310,474	--	39,657	350,131
710 - St. Louis County(4)	138,889	1,081,530	--	360,452	1,580,871
712 - Mt. Iron-Buhl(5)	732,396	520,324	--	183,612	1,436,332
	$2,836,169	$10,651,894	$1,785,380	$4,000,678	$19,274,121

* Does not include dollars from Taconite Property Tax Relief.

** Distribution in calendar year 1986 is based on 1985 production year.

(1) Erie Power Plant distribution.

(2) Butler Taconite received school bond credit of $38,009 for school bond payment.

(3) National Steel received school bond credit of $92,159 for school bond payment.

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

(5) U. S. Steel received school bond credit of $651,908 for school bond payment.

TABLE 10 -- TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1985

Firm	Production Tons	Taxable Tonnage(1)	Tax Rate(2)	Production Tax Revenue(3)
Butler	952,476	1,471,214	$2.0475599	$ 2,808,534
Erie	4,862,497	4,779,307	2.0475599	9,005,053
Eveleth	2,943,613	3,437,865	2.0475599	6,779,806
Hibbing	5,059,291	5,567,170	2.0475599	11,080,884
Inland	1,821,941	0,927,053	2.0475599	3,793,209
National	4,428,662	4,506,722	2.0475599	8,699,071
Reserve	3,282,389	3,474,339	2.0475599	6,106,467
U. S. Steel	9,913,832	9,312,978	2.0475599	16,818,763
TOTAL	33,264,701	34,476,648	$2.0475599	$65,091,787

ESTIMATED FOR PRODUCTION YEAR 1986

Firm	Production Tons	Taxable Tonnage(4)	Tax Rate(5)	Production Tax Revenue(3)
Butler	- 0 -	980,809	$1.90	$ 1,660,190
Erie	4,000,000	4,519,538	1.90	7,813,356
Eveleth	3,000,000	3,291,910	1.90	5,997,558
Hibbing	4,500,000	5,211,447	1.90	9,586,412
Inland	1,600,000	1,818,035	1.90	3,303,107
National	3,600,000	4,204,481	1.90	7,461,370
Reserve	1,400,000	2,782,892	1.90	4,286,930
U. S. Steel	8,000,000	8,875,318	1.90	14,658,151
TOTAL	26,100,000	31,684,430	$1.90	$54,767,074

(1) The 1985 taxable tonnage was the average production for 1984 and 1985.

(2) The base rate of $1.25 per ton is adjusted for any increase in the steel mill products index over the 1977 base. The steel mill products index escalation factor for the 1984 production year was 1.6380479. This base rate ($2.0475599) was frozen for the 1984 and 1985 production years. This is the tax rate before any credits are allowed.

(3) Production tax revenue after school bond credits, the 1984 court settlement credits, and the water filtration plant credit have been taken.

(4) The 1986 taxable tonnage is the average production of the 1984, 1985 and 1986 production years.

(5) The tax rate for the 1986 production year was reduced to $1.90 per taxable ton.

TABLE 11--TACONITE PRODUCED (THOUSANDS OF TONS) AND PRODUCTION TAX COLLECTIONS (THOUSANDS OF DOLLARS) 1955-1986

Year	Production Tons	Production(a) Tax Revenue	Revenue Rate Production Ton	Taxable(b) Tons	Tax Rate(b) Taxable Ton
1955	1,341	$ 78	$ .058		
1956	5,069	297	.059		
1957	6,812	397	.058		
1958	8,574	500	.058		
1959	8,414	528	.063		
1960	13,390	735	.055		
1961	13,187	766	.058		
1962	14,526	842	.058		
1963	16,701	972	.058		
1964	18,505	1,075	.058		
1965	19,004	1,104	.058		
1966	21,677	1,257	.058		
1967	24,311	1,427	.059		
1968	30,269	1,782	.059		
1969	33,410	3,778	.113		
1970	35,348	4,253	.120		
1971	33,778	5,539	.164		
1972	34,544	7,002	.203		
1973	41,829	10,159	.243		
1974	41,053	11,952	.291		
1975	40,809	30,347	.744		
1976	40,575	30,857	.750		
1977	26,372	48,891	1.854	37,759	$1.296
1978	49,545	69,394	2.401	49,614	1.399
1979	55,333	88,485	1.599	55,373	1.598
1980	43,060	87,179	2.025	50,296	1.733
1981	49,369	99,018	2.006	51,799	1.912
1982	23,445	80,305	3.425	38,624	2.079
1983	25,173	67,341	2.675	33,302	2.047
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986 (est.)	26,100	54,767	2.098	31,684	1.900

(b) The 1977 law was the first to apply the production tax rate against "taxable tons," the greater of the current year's production or the three-year average of production tons. Due to a negotiated settlement of court cases, the taxable tonnage' for 1984 is the current year only. Future years will be a two-year average for 1986 and beyond.

(a) Production tax revenue does not include school bond payments by some companies.

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

(c) Average statutory tax rate.

TABLE 12

SUMMARY OF THE 1985 PRODUCTION TAX

Firm	Taxable Tonnage	Tax Rate	Total Tax Before Credits	Erie II Court Case Credits	School Bond Credits	Filtration Plant Credits	Net Tax Collected
Butler	1,471,214	$2.0475599	$3,012,399	$ 165,856	$ 38,009	$ - 0 -	$ 2,808,534
Erie	4,779,307	2.0475599	9,785,917	780,864	- 0 -	- 0 -	9,005,053
Eveleth	3,437,865	2.0475599	7,039,235	259,429	- 0 -	- 0 -	6,779,806
Hibbing	5,567,170	2.0475599	11,399,114	318,230	- 0 -	- 0 -	11,080,884
Inland	1,927,053	2.0475599	3,945,756	152,547	- 0 -	- 0 -	3,793,209
National	4,506,722	2.0475599	9,227,783	436,553	92,159	- 0 -	8,699,071
Reserve	3,474,339	2.0475599	7,113,917	757,450	- 0 -	250,000	6,106,467
U.S. Steel	9,312,978	2.0475599	19,068,880	1,598,209	651,908	- 0 -	16,818,763
TOTALS:	34,476,648	$2.0475599	$70,593,001	$4,469,138	$782,076	$250,000	$65,091,787

PRODUCTION TAX CREDITS RESULTING FROM THE ERIE II COURT CASE

PRODUCTION YEAR

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

The credits consist of all interest to date plus one-fifth of the initial principal and will be paid back by not collecting that amount of money from each firm. The production year credits will be applied to the taxes payable in the following year. For example, the 1985 production year credits will be applied to the taxes payable in 1986.

OCCUPATION TAX ON TACONITE, SEMI-TACONITE AND IRON ORE

INTRODUCTION

In 1921, the Minnesota State Legislature imposed a special tax, the occupation tax, upon " . . . every person engaged in the business of mining or producing iron ore or other ore in this state." The occupation tax generally resembles a corporate income tax.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

The determination process consists of two major steps. The first step is the determination of the value of iron ore at the mouth of a Minnesota mine, the starting point for Minnesota's occupation tax. Because no published market price exists for ore at the mouth of a Minnesota mine, the value is calculated rather than directly set by the market. The value is determined by deducting expenses incurred beyond the mouth of the mine from the recognized and published market value of iron ore delivered to Lake Erie ports. In effect, this value is obtained by working backward from a Lake Erie port dock to the mouth of a Minnesota mine.

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

The **second step** is the procedure of determining the value of ore for purpose of tax. Subtracted from the value of iron ore at the mouth of a Minnesota mine are certain expenses, specified by statute, called the **Statutory Deductions**. Included in the statutory deductions are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OCCUPATION TAX CREDITS

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

Taconite Company	Net Effective Rate	1985 Occupation Tax Due	1985 Refunds
Butler Taconite	6.75%	$ -0-	$ 115,054
Erie Mining Co.	6.75%	2,725,741	-0-
Eveleth Mines	6.75%	-0-	545,756
Hibbing Taconite	6.75%	1,344,402	-0-
Inland Steel	6.75%	-0-	767,589
National Steel	6.75%	-0-	689,445
U. S. Steel	6.75%	5,836,545	-0-
TOTALS:		$9,906,688	$2,217,174

Natural Ore Company			
LTV Steel Co.	6.75%	$327,868	
Rhude & Fryberger	9.34%	65,355	
TOTALS:		$394,233	

Beginning with 1985, both taconite and natural ore producers benefit from the labor credit which reduces the net effective occupation tax rate from 15 percent to a minimum of 6.75 percent. This rate will decrease with the occupation tax rate to a minimum of 6.25 percent in 1986 and 5.75 percent in 1987 and subsequent years. This net effective occupation tax rate also applies to royalty taxes for operating mines. In addition, all ore producers are eligible for credits for investment in pollution control equipment and costs incurred for exploration and research on Minnesota ores.

Natural ore producers are also allowed a loss mine credit for mining costs exceeding the value of ore. Small independent iron ore producers are allowed a discount credit for selling ore below the quoted Lake Erie Value of the ore. The discount credit was extended to ore stockpiled from previous years by the 1984 legislature.

OCCUPATION TAX ALLOCATION

The proceeds from the occupation tax are deposited in the state general fund. Distribution is constitutionally mandated with 40 percent to elementary and secondary schools, 10 percent for the University of Minnesota, and 50 percent in the general fund. The only other distribution of occupation tax is one cent per ton to the I.R.R.R.B. This is designated for the Region 3 fund, which must be used for environmental development grants in Region 3--Northeastern Minnesota.

TABLE 13

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

1955 - 1986*

	Iron Ore		Taconite		Totals	
Year	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax	Tons Produced	Occup'tn. Tax
1955	66,545	$31,501	1,341	$ 0	67,886	$31,501
1956	57,529	27,480	5,069	0	62,598	27,480
1957	61,304	33,106	6,812	154	68,116	33,260
1958	33,247	16,353	8,574	161	41,821	16,514
1959	27,578	11,942	8,414	93	35,992	12,035
1960	44,042	20,655	13,390	638	57,432	21,293
1961	30,458	13,010	13,187	898	43,645	13,908
1962	30,543	11,276	14,526	1,108	45,069	12,384
1963	28,682	10,886	16,701	1,426	45,383	12,312
1964	30,636	12,921	18,505	1,658	49,141	14,579
1965	33,462	15,646	19,004	1,740	52,466	17,386
1966	32,601	15,545	21,677	1,898	54,278	17,443
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808**	45,281	14,808
1981	1,664	1,232	49,369	12,708**	51,033	13,940
1982	789	719	23,445	3,348**	24,234	4,067
1983	851	499	25,173	7,386**	26,024	7,885
1984	850	442	35,689	29,915**	36,538	30,357
1985	1,465	394	33,265	9,907**	34,741	10,301
1986 est.	800	400	26,100	5,000	26,900	5,400

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

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

TABLE 14

OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS

TACONITE INDUSTRY ONLY

Year	Tons Produced (000 Tons)	Lake Erie Value	Cost of Benefi-ciation(1)	Transpor-tation(2)	Develop-ment	Cost of Mining(3)	Depreciation: Std. Plant & Motor Equip.	Admin. Expense	Misc.	Royalty	Taxable Value of Production	Occupation Tax Due
1971	33,778	17.408	6.922	4.421	.579	1.578	.289	.133	.221	.655	2.609	.159
1972	34,554	17.437	7.398	4.420	.665	2.019	.300	.148	.250	.657	2.569	.106
1973	41,829	18.034	7.018	4.719	.600	1.961	.267	.140	.220	.679	2.419	.163
1974	41,053	22.122	8.188	5.790	.737	2.142	.270	.150	.300	.818	3.648	.246
1975	40,809	28.846	9.720	6.835	.890	2.715	.330	.186	.435	.976	6.746	.464
1976	40,575	32.200	11.560	7.557	1.219	3.030	.470	.208	.570	1.077	6.496	.450
1977	26,372	34.827	17.816	8.075	1.415	4.116	.900	.440	.928	1.110	(.031)	.121
1978	49,545	37.080	14.950	8.710	1.497	3.827	.519	.310	.766	1.259	5.234	.388
1979	55,333	41.306	16.440	9.789	1.7660	4.000	.516	.417	.880	1.320	6.166	.435
1980	43,060	46.365	21.181	10.627	2.006	4.556	.722	.587	.932	1.444	4.308	.321
1981	49,369	51.106	21.171	13.254	2.155	5.135	.646	1.202	1.003	1.704	4.835	.257
1982	23,445	53.946	31.339	12.600	2.212	5.290	1.357	3.002	1.438	2.078	(5.372)	.321
1983	25,173	56.946	26.862	12.982	1.485	4.088	1.229	3.097	1.721	1.831	2.883	.453
1984	35,689	56.480	20.107	13.025	1.997	3.760	.737	3.430	1.104	1.691	10.629	.838
1985	33,265	47.102*	19.533	13.012	1.568	3.660	.859	3.425	.974	1.654	2.417	.297

(1) Cost of Beneficiation includes labor, supplies, depreciation and interest, miscellaneous (Line 3), sales and use tax expense (Line 7), marketing and marine insurance (Line 6).

(2) Transportation includes the rail and lake transportation allowances in accordance with the occupation tax directives for each year (Line 5).

(3) Cost of Mining includes mining labor and supplies (Line 9A & 9B) plus the 25-cent per ton production tax deduction allowance for each year (Line 13).

* Lake Erie Value reduced from .869 per iron unit to .725 per iron unit.

TABLE 15

OCCUPATION TAX REPORT PER TON COSTS

BENEFICIATION AND MINING -- TACONITE ONLY

(000'S Tons and Dollars)

	Tons Produced	Beneficiation Labor	Per Ton	Beneficiation Supplies	Per Ton	Beneficiation Depreciation & Interest	Per Ton	Benef./ Misc. Per Ton	Total Benef. Per Ton
1981	49,369	$232,195	$4.703	$583,411	$11.817	$197,150	$3.994	$.473	$20.987
1982	23,445	$153,361	$6.541	$366,730	$15.642	$188.239	$8.029	$.795	$31.007
1983	25,173	$158,209	$6.285	$325,389	$12.926	$184,617	$7.334	$.079	$26.624
1984	35,689	$112,415	$3.150	$419,708	$11.760	$173,211	$4.853	$.088	$19.851
1985	33,265	$106,804	$3.210	$372,156	$11.188	$156,363	$4.700	$.189	$19.287
Occ. Tax Report		Line 3A		Line 3B		Lines 3C & 3D		Line 3E	

	Tons Produced	Mining Labor	Per Ton	Mining Supplies	Per Ton	Cost of Mining	Mining Depreciation Per Ton	Total Mining Costs Per Ton
1981	49,369	$107,643	$2.180	$132,754	$2.689	$4.869	.646	$5.515
1982	23,445	$ 56,247	$2.399	$ 57,952	$2.472	$4.871	1.357	$6.228
1983	25,173	$ 49,284	$1.958	$ 44,428	$1.765	$3.723	1.229	$4.952
1984	35,689	$ 60,957	$1.708	$ 63,600	$1.782	$3.49	.737	$4.227
1985	33,265	$ 57,540	$1.730	$ 54,739	$1.646	$3.376	.859	$4.235
Occ. Tax Report		Line 9A		Line 9B			Line 9C	

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

M.S. 298.40 AND THE TACONITE AMENDMENT

Minnesota Statute 298.40 and the Taconite Amendment to the Minnesota Constitution were passed by the voters in 1963 and 1964. These provisions limited the taxes imposed upon the two existing taconite producers (Reserve Mining Company and Erie Mining Company) and any new taconite producers through 1989.

However, the tax limitations would continue as long as M.S. 298.40 remains law, even though the constitutional guarantee will expire in 1989. As shown in the example below, the limitation DOES NOT apply to the taconite production tax, which is in lieu of Ad Valorem tax.

Beginning with the 1974 Occupation Tax, the State and the mining companies have had differing interpretations of the taconite amendment, which were in litigation for several years.

The way this provision applies is as follows:

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

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

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

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

Even though the State generally prevailed in the limitation litigation, for some years specific taconite companies paid taxes in excess of the limitation. At the end of F.Y. 1986, (June 30, 1986), approximately $17.7 million in taxes were not collected because they exceeded the M.S. 298.40 limitation. As of June 30, 1986, credits owed to the mining industry in the accounts payable exceeded $19.9 million. An additional $49.8 million in taxes has not been collected since 1981 to "repay" credits owed to the taconite industry. The M.S. 298.40 credit summary (Table 16) provides more details on credits and the taxes applied to "offset" such credits.

TABLE 16 - M.S. 298.40 CREDIT SUMMARY

OCCUPATION TAX

	Tax Due Without M.S. 298.40 Limitation	Tax in Excess of M.S. 298.40 Limitation (Not Collected)(1)	Net Occupation Tax Due	Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)(2)	Actual Tax Collected	M.S. 298.40 Credit Due
1980	15,910,944	(2,103,345)	13,807,599	-0-	13,807,599	(2,792,456)
1981	17,175,966	(4,468,413)	12,707,553	(1,335,265)	11,372,288	(3,339,239)
1982	6,200,496	(2,852,661)	3,347,835	(3,347,835)	-0-	(2,829,78)
1983	11,401,855	(4,016,073)	7,385,782	(4,999,484)	2,386,298	(1,702,219)
1984	33,061,342	(3,145,988)	29,915,354	(19,309,767)	10,605,587	(1,775,324)*
1985	11,080,464	(1,173,776)	9,906,688	(5,836,545)	4,070,143	(2,217,174)*
1986 est.	7,000,000	(2,000,000)	5,000,000	-0-	5,000,000	(1,000,000)

SALES AND USE TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)(3)	Actual Tax Collected
1982	7,246,363	(750,261)	5,496,102
1983	5,765,048	(2,613,605)	3,151,443
1984	7,110,166	(4,283,181)	2,826,985
1985	6,476,570	(4,216,360)	2,260,210
1986 est.	4,600,000	(1,600,000)	3,000,000

RAILROAD GROSS EARNINGS TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)(4)	Actual Tax Collected
1983	926,207	(640,512)	285,695
1984	1,678,295	(1,678,295)	-0-
1985	1,985,441	(795,979)	1,889,462
1986 est.	1,158,237	(268,111)	890,126

---

*	This amount refunded when occupation tax due.		
(1)	1980-1985 Occupation Tax exceeding M.S. 298.40 limitation (not collected)	$17,760,256	
(2)	1981-1985 Occupation Tax applied to M.S. 298.40 credits (not collected)	$34,828,896	
(3)	1982-1985 Sales Tax applied to M.S. 298.40 credits (not collected)	$11,863,407	$49,807,089
(4)	1983-1985 Railroad Tax applied to M.S. 298.40 credits (not collected)	$ 3,114,786	

AD VALOREM TAX ON UNMINED NATURAL IRON ORE

Since 1909, Minnesota's natural iron ore reserves have been estimated and assessed by the state for ad valorem tax purposes. The actual ad valorem tax levy is set by the county, the school district, and the local township or municipality. The tax levy is collected by the county auditor.

A Minnesota Supreme Court decision in 1936 established the present worth of future profits method for valuing the iron ore reserves. This is accomplished through the use of a complex formula known as the Hoskold Formula. The Formula takes into account ore prices and all the various cost factors in determining the value of the unmined ore.

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

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

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

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

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

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

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

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

MINIMUM RATES

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

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

Thus, the rate per ton for underground wash ore with an iron content of less than 60 percent would be calculated as follows:

Number of Tons x .4-Cents/Ton = Valuation

The value of the unmined ore for tax purposes is then multiplied by three, as per M.S. 273.1104.

A record of iron ore ad valorem taxes since 1970 is listed as follows:

PAYABLE	COUNTY	LOCAL	TOTAL
1971	3,448,777	6,773,671	10,222,448
1972	3,250,105	4,391,721	7,641,826
1973	2,921,888	4,011,868	6,933,756
1974	2,692,412	3,820,836	6,513,248
1975	2,364,788	3,264,638	5,629,426
1976	1,860,429	2,599,476	4,459,905
1977	1,741,437	2,298,178	4,039,615
1978	1,838,862	2,401,434	4,240,296
1979	1,920,313	2,483,562	4,403,875
1980	2,193,940	2,149,087	4,343,027
1981	1,783,461	1,905,607	3,689,068
1982	1,713,271	2,057,006	3,770,277
1983	1,561,778	1,982,895	3,544,673
1984	1,591,852	2,107,723	3,699,575
1985	1,446,983	1,879,307	3,326,290
1986	1,286,124	1,750,449	3,036,573

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore shall be held on the first secular day following the 10th day of October. This hearing provides an opportunity for representatives of the mining companies and taxing districts to formally protest any of the ore estimates or valuation procedures which they believe to be incorrect.

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

GROSS EARNINGS TAX ON TACONITE RAILROADS

Effective January 1, 1987, every company owning or operating a taconite railroad shall pay annually into the state treasury a sum of money equal to 3.75 percent of the gross earnings derived from the operation of such taconite railway within the state. This is a reduction from the previous 5.00 percent tax rate. The gross earnings shall be the sum of money equal to the amount which would be charged under established tariffs of common carriers for the transportation of iron ore from the Mesabi Range to ports at the head of Lake Superior. This is the direct rail freight from the occupation tax directive. If coal or other commodities are transported, the gross earnings shall be calculated using the same direct rail rate which applies to taconite.

At the present time, the tax applies only to Reserve Mining Company and Erie Mining Company railroads. The tax is due twice a year in six-month increments:

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

The companies submit a report with their payment containing such information as number of tons shipped, freight and handling rates, taxable earnings, transportation of other commodities, track mileage in each taxing district, and a summary of taxable earnings.

Prior to 1978, the revenue from the gross earnings tax on taconite railroads was deposited in the State's general fund and distributed to the various taxing districts in which such railroad operations were conducted as follows:

City, Village or Town	22%
School District	50%
County	22%
State	6%
	100%

The first three accounts were distributed to individual taxing districts based on the location of terminal facilities and trackage. Beginning in 1978, the amounts of the 1977 distribution to the first three accounts was frozen and the distribution made from the taconite production tax. The revenue collected from the gross earning tax on taconite railroads is not allocated 100 percent to the state genera fund.

Calendar Year	Tax	M.S. 298.40 Offset (Tax Not Collected)	Total Tax Collected
1979	$3,634,407	-0-	$3,634,407
1980	2,983,819	-0-	2,983,819
1981	4,960,605	-0-	4,960,605
1982	1,354,173	-0-	1,354,173
1983	926,207	$ 640,512	285,695
1984	1,678,295	1,678,295	-0-
1985	1,985,441	795,979	1,189,462
1986 (est.)	1,158,237	268,111	890,126

ROYALTY TAXES

In 1923, the Minnesota legislature passed a royalty tax law providing for a six percent tax on any royalties received. Since that time, the gross tax rate has exactly followed the occupation tax rates. Prior to 1959, no labor credits were allowed. The 1923 law assessed the tax against the royalty recipient, but because of the terms of mining leases, the courts have ruled that the lessee was responsible for payment of the tax. This was affirmed by both the Minnesota and United States Supreme Courts in a series of rulings beginning in 1926. Presently, all royalty taxes are collected from the lessee. Royalties can include rents, bonus payments, non-recoverable lease payment, etc.

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

The present tax on royalties received in connection with the exploration and semi-taconite mining of taconite and semi-taconite is 14.5 percent. A credit which reduces the 14.5 percent tax rate to the net effective tax rate for occupation taxes is allowed for taconite and semi-taconite royalty taxes on land that is being actively mined. This credit also applies in cases where the minimum royalty is, in fact, a prepaid royalty specified in the terms of the mining lease. In most cases, the net effective occupation tax rate for taconite is 6.25 percent.

As with the occupation tax, beginning in 1985, the royalty tax rate on the exploration and mining of iron ore was reduced to 14.5 percent. More significantly, the same labor credit that applied to mining taconite was also applied to the mining of iron ore. This meant that the net effective rate could possibly be reduced to a minimum of 6.25 percent if the cost of labor met or exceeded the necessary amount.

Effective January 1, 1987, the tax rate will again be lowered. The new rate will be 14.00 percent and, after the labor credit is applied, may possibly be lowered to a minimum of 5.75 percent.

The royalty tax rate which would apply to the mining or production of all other ores, including base or precious metals, is 14.50 percent. A special labor credit is available which would probably reduce the rate for all mines to about 6.25 percent. The scheduled rate reductions mentioned above for taconite and natural ore also apply to base and precious metals. A lower royalty tax rate (one percent) may apply during the exploration phase and is explained in the section on copper-nickel mining.

Special tax provisions apply to royalty on copper-nickel. The tax on royalties received in connection with the exploration and mining of copper-nickel ores is one percent plus an additional one percent of the amount of royalty paid on gold, silver, platinum, and other precious metals recovered as by-products.

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

The royalty tax is not in lieu of personal income tax on royalties. Resident and nonresident recipients (individuals, partnerships, and corporation) of royalties are subject to state income tax in the same manner as if the royalty income were from rents or other business activities in the State of Minnesota.

For those who file a Minnesota Income Tax Return, royalty must be included as income. For those nonresident royalty recipients who have not filed a return, income received from Minnesota--including royalty--must be reported.

Minnesota Income Tax Filing Requirements

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

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

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

TABLE 17

IRON ORE, TACONITE & OTHER ORE*, ROYALTY TAX

Year	Iron Ore Royalty Tax (000's)	Taconite Royalty Tax (000's)	Other Ore Royalty Tax (000's)	Total Revenue (000's)
1970	$ 966	$ 787	3	$1,756
1971	705	1,323	3	2,031
1972	904	1,402	2	2,308
1973	1,289	1,886	2	3,177
1974	1,351	1,994	2	3,347
1975	998	2,657	2	3,657
1976	686	2,841	2	3,529
1977	748	2,626	2	3,376
1978	894	3,280	21	4,195
1979	807	4,775	34	5,616
1980	713	4,619	22	5,355
1981	429	5,392	44	5,866
1982	619	4,093	13	4,725
1983	445	2,821	13	3,279
1984	536	4,564	7	5,107
1985	359	3,650	4	4,013
1986 (est.)	275	2,300	7	2,582

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

SALES AND USE TAX

Imposition of the sales and use tax became effective on August 1, 1967. Both natural ore mining and taconite facilities are subject to this tax, just as are other manufacturing businesses.

"Sales" and "Use" taxes are essentially identical. The sales tax is assessed by the vendor at the time of the sale of taxable personal property; the use tax is imposed on the use, storage or consumption of taxable personal property which was purchased without sales tax having been assessed.

All sales and use tax revenue is deposited in the general fund and is not earmarked for any specific distribution.

The current rate of tax is six percent, having been increased from five percent on January 1, 1983. The same manufacturing exemptions available to other Minnesota businesses are utilized by the mining companies. The industrial production exemption allows for "chemicals, fuels, petroleum products, lubricants, production." Explosives, a major item for the mining industry, are exempt under the "chemical" classification.

The "accessory tool" exemption is also available to all "manufacturing-type" businesses. This provision, M.S. 297A.25, Subd. 1(h), as amended January 1, 1974, defines exempt accessory tools as separate detachable units used in producing a direct effect on the product, having a useful life of less than 12 months. Shovel dipper teeth, "cat" ripper teeth, cutting edges, crusher bowls, drill bits, and reamers are examples of this type of exemption.

Currently, there is just one exemption unique to the taconite industry not available to the natural ore facilities or other Minnesota concerns. Under M.S. 297A.25(o), mill liners, grinding rods, and grinding balls which are substantially consumed in the production of taconite, the material of which primarily is added to and becomes a part of the material being processed, are specifically exempted from sales and use tax. These are items subjected to both extreme wear and high cost.

From February 1, 1975, through July 1, 1978, the taconite industry had an exemption from sales and use tax exclusively for plant expansion. A minimum increase in production capacity of 10 percent was required to qualify (refer to 1983 Mining Tax Guide).

Effective July 1, 1984, the sales and use tax rate on capital equipment purchased for new or expanding industries was reduced from six percent to four percent. Purchasers who pay tax to the vendor as well as holders of direct pay permits must pay or assess the six percent rate and then file a claim for refund with sufficient documentation to the State for the two percent difference. Only two claims for refund can be filed per year but they can be for more one purchase. The exemption does not apply to the purchase or lease of machinery or equipment to replace existing items, repair or replacement parts or machinery or equipment used to extract, receive or store raw materials.

The Minerals Tax Division has the responsibility of insuring compliance by the iron ore industry with the Sales and Use Tax Law. In the interest of better administrative control, the Revenue Department does authorize Direct Pay Permits to any concern which supports extensive and varied purchase inventories. Every taconite company has elected this system of self-assessment of use tax on taxable purchases. To insure the integrity of the various systems of self-assessment, the Minerals Tax Division utilizes auditing and monitoring procedures for each company on a continuous basis.

A review of the sales/use tax revenue generated annually by the iron ore industry clearly establishes that the totals are substantial amounts, and are of major ranking of all tax revenues paid by the mining industry.

In previous Minnesota Mining Tax Guides, the sales and use tax revenue generated figures shown were on the cash basis of accounting. For consistency throughout the Guide, the sales and use tax after 1980 have been changed to the accrual method of accounting.

YEAR	SALES TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	SALES TAX COLLECTED
1975	$ 7,214,111	$ -0-	$ 7,214,111
1976	7,446,168	-0-	7,446,168
1977	7,375,115	-0-	7,375,115
1978	8,573,835	-0-	8,573,835
1979	12,590,481	-0-	12,590,481
1980	9,231,156	-0-	9,231,156
1981	10,535,427	-0-	10,535,427
1982	7,338,653	750,261	6,588,392
1983	5,808,237	2,613,605	3,194,632
1984	7,110,166	4,283,181	2,826,985
1985	6,476,570	4,216,360	2,260,210
1986 (est.)	4,600,000	1,600,000	3,000,000

Sales Tax Rate History

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

M.S. 298.26 TAX ON UNMINED TACONITE

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

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

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

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

The categories are listed as follows:

1. Those lands which are underlain by magnetic taconite of sufficient quantity and grade to be currently economic.

2. Lands either not believed or not known to be underlain by magnetic taconite of currently economic quantity and grade.

Lands in the first category have been appraised by the Minerals Tax Division as having a value of at least $500.00 per acre. An assessment rate of 43 percent applies to unmined taconite. Therefore, through application of the above rates, all lands in Category 1 would yield $10.00 per acre in tax at a $500.00 market value using currently existing mill rates in St. Louis and Itasca Counties.

Land in Category 2 have been assigned a nominal value of $25.00 per acre for the unmined taconite mineral rights. These lands were taxed at $1.00 per acre prior to 1977. The Category 2 lands have been placed on the tax rolls at an assessed value of $25.00 times 43 percent, and the actual amount of the tax per acre will vary between taxing districts depending on the mill rate. The low mill rate districts may be less than $1.00 per acre, while some high mill rate districts may exceed $2.00 per acre.

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

County	1980	1981	1982	1983	1984	1985
Itasca	28,263	30,946	32,690	34,741	34,485	36,123
St. Louis	203,955	209,118	252,011	296,228	286,904	360,546
Totals:	232,218	240,064	284,701	330,969	321,389	396,669

*Taxes are payable in the year following the assessment.

TAX ON SEVERED MINERAL INTERESTS

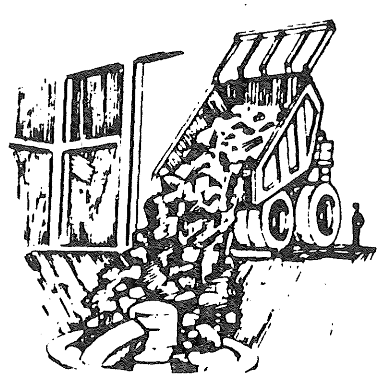
Severed mineral interests are subject to local property taxation and constitute Class 1B. Severed mineral interests are taxed at a rate of $.25 per acre with an undivided interest tax calculated at 25-cents-per-acre times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $2.00 per tract. No tax is due on mineral interests taxed under other laws (unmined taconite or iron ore) or mineral interests which are exempt from taxation pursuant to constitutional or statutory provisions.

The taxes received are distributed as follows: twenty percent to the State Treasurer to be deposited in a special account "Indian Business Loan Account" and distributed under the provisions of M.S. 116J.64, which is administered by the Indian Affairs Council. The balance will be apportioned to the taxing districts in the same proportion as the surface interest mill rate of the taxing district is to the total surface interest mill rates in the area taxed.

Both the registration and the tax were contested in the courts in the case of Contos vs. Herbst. In its decision, the Minnesota Supreme Court held that the tax is valid and that an ad valorem tax need not be related directly to value and that forfeiture for unpaid tax is valid. The court, however, held invalid the forfeiture for failure to register.

The issue was addressed by the Minnesota Legislature in 1979, Chapter 303, Article X. However, the question as to whether the 1979 amendment satisfies the Supreme Court's due process requirement has not been answered in the courts.

Fiscal Year Ending	Total Collections of Affected Counties	Payment to Indian Business Loan Account
June 1980	$276,655	$ 55,331
June 1981	$198,096	$ 39,619
June 1982	$339,635	$ 67,927
June 1983	$343,169	$ 68,634
June 1984	$548,797	$109,759
June 1985	$410,416	$ 82,083
June 1986	$502,518	$100,504



CRUSHING

TAXES ON COPPER-NICKEL MINING

Significant exploration activity with regard to copper and nickel minerals in northern Minnesota began in the early 1950's. This activity centered primarily around the geologic formation known as the Duluth Gabbro. Although there has been no commercial production to date, several interesting mineralized areas have been discovered.

A special occupation tax and production tax for copper-nickel was passed in 1967. Interest has been centered on a deposit previously controlled by Amax Company near Babbitt, Minnesota. Environmental and economic feasibility studies have been conducted. However, it appears that development is at least several years away and probably much longer.

DEFINITION OF COPPER-NICKEL ORE

M.S. 298.67 defines the term "copper-nickel ore" as: "any ore in which copper or nickel, or both, constitute the major element or elements of value thereof." Administratively, we have interpreted this to mean that copper and/or nickel must be the largest constituent of value in the ore.

TAXES

The following taxes currently in effect will apply to copper-nickel mining:

Type of Tax	Description
Corporate Income Tax	Same as other corporations, less credit for occupation tax paid.
Occupation Tax	Based on one percent of net value of ore.
Production Tax	Based on crude ore production.
Property Tax	Applies to smelter and surface interests of reserve lands.
Royalty Tax	One percent of royalty paid. No tax on state leases.
Sales Tax	Same as other corporations.

A somewhat more detailed explanation of the copper-nickel production and occupation taxes follows:

PRODUCTION TAX

The base production tax is 2.5 cents per gross ton of crude ore plus 10 percent for each one-tenth of one percent that the average copper-nickel content exceeds one percent when dried at 212^{0}F. This total is then subject to an increase proportional to the monthly average wholesale price index for all commodities for the taxable year in which the concentrate is produced compared with the 1967 index.

It should be emphasized that the production tax on copper-nickel ore applies per short ton (2,000 lbs.) of crude ore, while the taconite production tax applies per long ton (2,240 lbs.) of pellets. The copper-nickel would be applied against a much larger base than taconite because of this difference. Revenue from this tax is to be distributed in the same manner as specified for the taconite production tax in the laws of 1965.

OCCUPATION TAX

The current rate of occupation tax is one percent of the value of the ore. This value is obtained in a similar manner to values used for taconite occupation tax. Two special credits are allowable. One if for converting the copper-nickel ore into a refined or semi-refined metal within the State of Minnesota. This credit is in the amount of two-thirds of one percent.

The second credit, which is less significant, is for research, experimentation, and exploration. The total occupation tax is allowable as a credit against the corporate income tax.

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

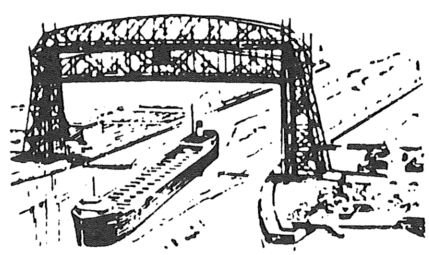
ROYALTY TAX

The present royalty tax is one percent of the royalties paid on copper-nickel leases, plus an additional one percent of the amount paid on gold, silver, platinum and other precious metals. The question has been raised as to when copper-nickel tax rates (one percent) apply and when the "other ore" rates (14.5 percent) apply.

Our current policy is as follows:

1. During the exploration phase, royalty on leases for copper-nickel and associated minerals will be taxed at one percent. Royalty on leases specifically for iron ore, taconite, and uranium will be taxed at 14.5 percent. Any lease which is not specifically for iron ore, taconite or uranium will be classified as a copper-nickel lease.

2. After completion of the exploration phase, if it is apparent that the minerals discovered are something other than copper-nickel, royalties paid will then be taxed at 14.5 percent or the applicable net effective occupation tax rate. This rate will not be adjusted retroactively.



TAXES ON OTHER MINING AND/OR EXPLORATION

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

The 1987 legislature will consider many areas of tax reform. For more information, see the bottom of Table 19.

Under current law, any of this type of mining activity would be subject to the following taxes:

1) Occupation Tax
2) Sales and Use Tax
3) Royalty Tax
4) Ad Valorem (Property Tax)
5) Tax on Severed Mineral Interests

The Occupation Tax rate which would apply to base metal mines, precious metal mines, and energy minerals is 15 percent for all ores mined or produced before January 1, 1986. The rate drops to 14.5% for ores mined in 1986, and 14 percent for ores mined in 1987 and subsequent years. However, a special labor credit is available which could reduce the net effective rate for an active mine to a minimum of 6.75 percent. This rate will fall with the occupation tax rate and will be 5.75 percent for ores mined in 1987 and subsequent years. This net effective occupation tax rate also applies to royalty taxes for operating mines. This tax is normally paid in lieu of corporate income tax.

Mining companies who are exploring for various metals or minerals in Minnesota for themselves would not incur any occupation tax liability until production had been started and would not be subject to income tax.

During the drilling and exploration phase, a mining company would be subject to property taxes on the property (land and buildings). Severed mineral rights would be subject to the $.25 per acre severed mineral interest tax. This does not apply to mineral interests held by the state or federal government.

The Sales and Use Tax rate is six percent. The industrial production exemptions are described in the Sales and Use Tax section of this book. The exemptions unique to taconite would not extend to other mining without special legislation. However, the exemptions which apply to all manufacturing would also be applicable to mining.

Exemptions given for industrial production DO NOT APPLY to exploration. No tax exempt certificates should be used. All purchases by companies doing exploration are taxable.

As of July 1, 1984, capital equipment purchased or leased for new or expanding industries is subject to a four percent tax rate. The buyer initially pays the six percent tax and then files a claim for refund with the Sales and Use Tax Division for the two percent overpayment. For a more detailed explanation, contact the Minerals Tax Division.

The Royalty Tax is a tax placed on all royalties paid to mineral right owners, regardless of whether any actual mining is taking place or not. Royalties can include rents, bonus payments, non-recoverage lease payments, etc. The royalty tax rate is the same as the occupation tax rate after labor credits (net effective rate) for an active mine. The rate for inactive mines would be 14.5 percent, the same as the occupation tax (scheduled reductions will drop this to 14 percent by 1987). Royalty paid to the State of Minnesota on state owned leases is not subject to Royalty Tax. Historically, privately negotiated leases in Minnesota have assigned the responsibility for payment of royalty taxes to the mining company. The terms and responsibility for payment of the royalty tax is a matter of negotiation between the parties involved, depending on the terms of the lease. However, it is the responsibility of the lessee to withhold the amount of the tax even if the terms of the lease state that the lessor is responsible for the tax (M.S. 299.08).

It should be noted that special tax laws apply to copper-nickel only and are covered in a separate section. During the exploration phase, royalties paid on leases for copper-nickel and associated minerals will be taxed at one percent as explained in the Copper-Nickel section.

The Ad Valorem Tax or property tax is a matter of valuation of the ores in the ground by the state and the valuation of other property such as land, mill and smelter buildings, etc., by the county. The county establishes mill rates, assesses and collects this tax. The Hoskold formula is used by the Minerals Tax Division for the valuation of ores and minerals in the ground.

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

The Corporation Income Tax would not be applicable to mining or mineral production. However, it could apply to non-mining or non-mineral income such as building rentals or real estate and timber investments, etc.

TAXES ON PEAT HARVESTING

As of the writing of this book, the only taxes on peat operations are the same as those on any other Minnesota agricultural or industrial operation. These taxes are the Income Tax (corporation or individual), the Sales and Use Tax, with the industrial production exemptions, and the Ad Valorem (property) Tax on the land and buildings, NOT on the value of the peat.

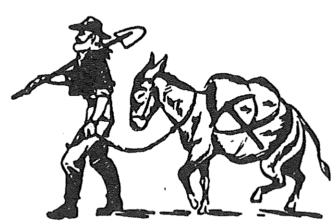


TABLE 19

APPLICABLE TAXES BY TYPE OF MINERAL

	Taconite Mining	Natural Iron Ore Mining	Cu-Ni Mining	Base Metal Precious Metal, Energy Minerals Mining	Peat Harvesting
Occupation Tax	Yes(1)	Yes(2)	Yes(3)	Yes(4)	No
Corp. Income Tax	No	No	Yes	No	Yes
Ad Valorem Tax (on ore value)	No(5)	Yes	No(5)	Yes(5)	Yes
Ad Valorem Tax (on smelter, beneficiation plant or other facilities)	No	Yes	Yes	Yes	Yes
Royalty Tax(6)	Yes	Yes	Yes	Yes(4)	No
Production Tax	Yes	No	Yes	No	No
Sales Tax	Yes	Yes	Yes	Yes	Yes

This chart applies only to mining companies in commercial production. Mining companies in exploratory work are subject only to ad valorem taxes, royalty tax, and sales tax.

		Nominal Rate	Minimum Net Effective Rate
(1,2,4)	1985:	15.0%	6.75%
	1986:	14.5%	6.25%
	1987:	14.0%	5.75%

(3) One percent only, credit on corporate income tax.

(5) Could be subject to 25-cents-per-acre severed mineral interest tax.

(6) No royalty tax on State of Minnesota owned minerals.

The 1987 legislature is expected to consider many areas of tax reform, including taxes on taconite, natural ore, copper-nickel and base metals, precious metals and energy minerals.

TABLE 20 -- ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

JANUARY	FEBRUARY	MARCH	APRIL
-- Ad Valorem Tax Reports mailed to companies. -- Ad Valorem estimates submitted by companies (January-June). 31-- Quarterly royalty checks and reports from companies usually received in January, April, July and October.	1 -- Royalty Paid Report by companies due. 1 -- Royalty Received Report from recipients due. 1 -- Taconite Tax Report due from companies. 1 -- Taconite Production Tax determinations mailed to companies within one week. 15-- Ninety percent payment of the Taconite Production Tax due in county offices. 25-- Distribution of the Taconite Production Tax by counties (collected on Feb. 15).	1 -- Railroad Gross Earnings Report and payment due for July to December of previous year. 1 -- Occupation Tax Report due from companies. 15-- Taconite Production Tax final 10% tax figure with adjustments mailed to companies.	1 -- Owner of lessee of mineral rights submits specified data on drill hole logs and lab tests during previous year for Unmined Taconite Tax. 15-- Final Taconite Production Tax payment due in the county offices.
MAY	**JUNE**	**JULY**	**AUGUST**
1 -- Tentative Determination for Occupation Tax mailed by the Division. 15-- If a disagreement exists, a formal written protest to the Tentative Determination must be filed. 15-- Formal hearing held, if necessary. 15-- Final Taconite Production Tax aid payments made to taxing districts by the counties. 15-- Ad Valorem Tax Reports due from mining companies.	1 -- Final Occupation Tax Determination mailed to companies. 14-- Full Occupation Tax payment due. 30-- Recertification of Royalty Tax paid mailed to mining companies.	15-- Taconite Referendum distribution of Taconite Production Tax made by the company. 15-- Additional Royalty Tax assessed due in Minerals Tax Office.	
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
1 -- Railroad Gross Earnings Report and payment due for January to June. 15-- Ad Valorem Tax present worth estimated mailed to companies. 15-- Taconite Municipal Aid account funds distributed.	10-- Taconite Production Tax estimates due from companies. -- Hearing on Ad Valorem mineral taxes held first secular day after October 10.	1 -- Ad Valorem Tax final adjustments to property equalization sheets to county assessors.	1 -- Mineral Tax Group submits Unmined Taconite Tax Reports to county assessors. 30-- Occupation Tax forms mailed to companies. 30-- Royalty Paid Tax Report forms mailed to companies. 30-- Royalty Received Report forms mailed to royalty recipients.

MINERALS AND MINING
Government Agencies

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

DONALD H. WALSH, Audit Manager, Administration
JOHN B. RIOUX, Tax Examiner - Occupation Tax
NORMA BRUSACORAM, Tax Examiner - Occupation Tax/Accounts Payable
BILL O'BRIEN, Tax Examiner - Sales & Use Tax
MARY JO GRAHEK, Secretary

THOMAS W. SCHMUCKER, Administrative Engineer - Production Tax, Valuations
WILLIAM F. BETZLER, Mining Economic Geologist - Mineral Engineering
SANDRA D. GORRILL, Executive I - Royalty Tax, Gross Earnings Tax
ROBERT A. WAGSTROM, Mining Engineer, Computer Programs

IRON RANGE RESOURCES AND REHABILITATION BOARD
Mineland Reclamation Division
Calumet, MN 55716 (218) 247-7215

ORLYN J. OLSON, DIRECTOR

MINNESOTA DEPARTMENT OF NATURAL RESOURCES
500 Lafayette Road
St. Paul, MN 55146 (612) 296-8157

J.A. ALEXANDER, Commissioner
E. F. RAFN, Director, Division of Minerals

Minerals Division
1525 3rd Ave. E.
Hibbing, MN 55746 (218) 262-6767

ROGER JOHNSON, Manager, Engineering and Operations
MARTY VADIS, Exploration
FRANK CATANI, Mineland Cleanup

MINERAL RESOURCES RESEARCH CENTER
University of Minnesota
56 East River Road
Minneapolis, MN 55455 (612) 625-3344

K. J. REID, Professor & Director
I. IWASAKI, Professor, Mineral Processing/Hydrometallurgy

MINNESOTA GEOLOGICAL SURVEY
1633 Eustis Street
St. Paul, MN (612) 373-3372

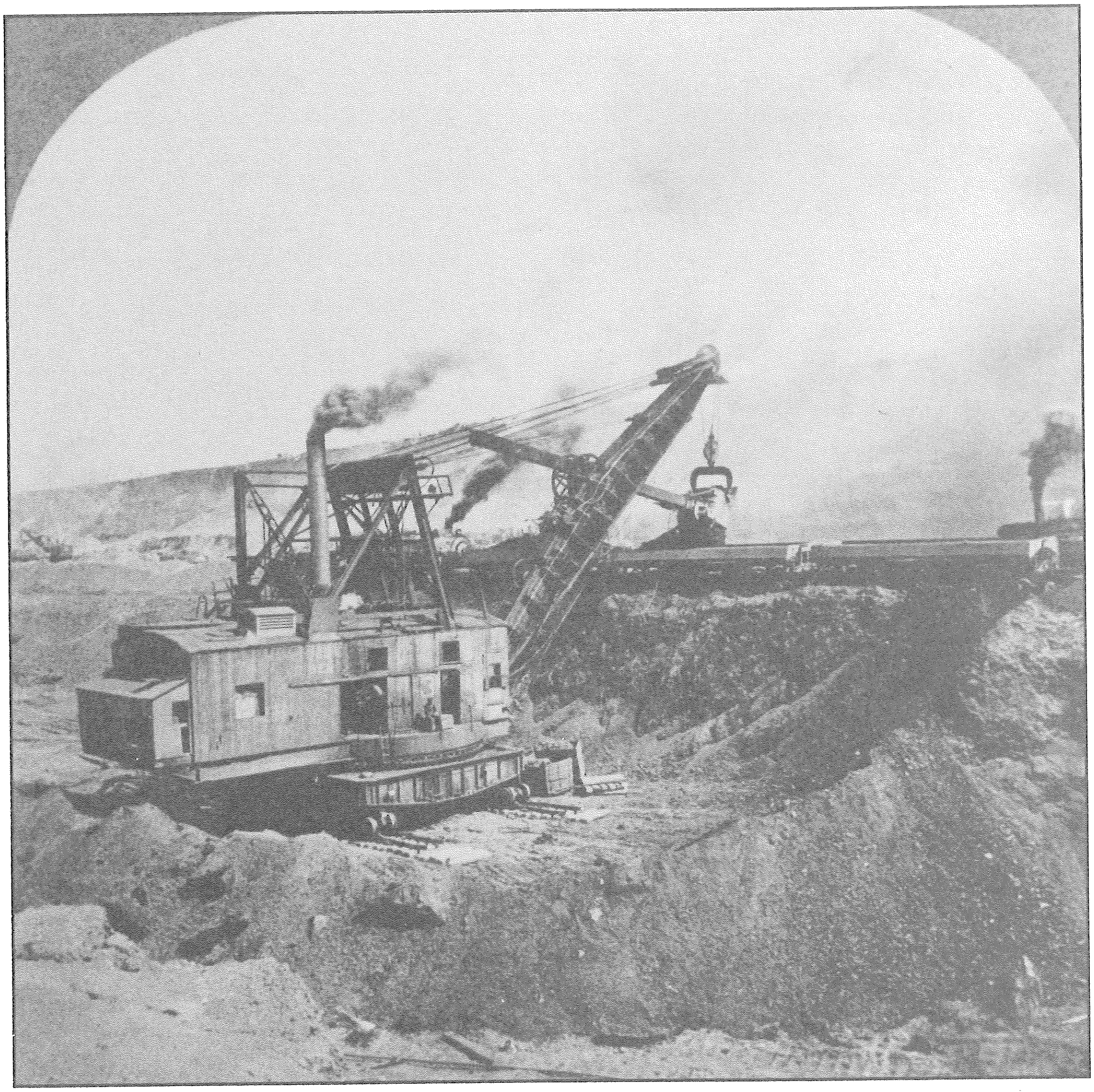
PRISCILLA GREW, Director
NANCY BALABAN, Editor

NATURAL RESOURCES RESEARCH INSTITUTE
University of Minnesota, Duluth
3151 Miller Trunk Highway
Duluth, MN 55811 (218) 726-6138

M. LALICH, Director
T. B. JOHNSON, Associate Director, Minerals Division

COUNTY MINE INSPECTORS

D. A. SANDSTROM, St. Louis Co. Mine Inspector, Court House Annex, Virginia, MN (218) 749-7121
S.P. JELENCICH, Crow Wing Co. Mine Inspector, Star Route 1, Deerwood, MN (218) 546-5868
ALVAR HUPILA, Itasca Co.Mine Inspector (218) 245-2261



Open Pit Mining, Mesabi Range, ca. 1906

Cover Photo
Underwood & Underwood Photo
Minnesota Historical Society

Back Photo
Library of Congress