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Minnesota

Minerals Tax Bulletin

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Law Changes and the Mining Industry

The 1987 Minnesota Legislature made several law changes affecting Minnesota's mining industry. In addition, the Legislature made several changes in the state's sales and use tax laws that will also affect the mining industry. Laws relating directly to the mining industry are covered in the first three pages of this bulletin, and a summary of sales tax law changes affecting the mining industry are covered on the fourth page. For further information on any of the law changes, contact the Minerals Tax Office.

Taxes on Taconite and Iron Ore

Occupation Tax on Taconite, Semi-Taconite and Iron Ore

The 1987 Minnesota Legislature repealed the present form of the occupation tax, effective with production after December 31, 1989. The revised occupation tax will be figured in the same way as the Minnesota Corporate Franchise (Income) Tax, which is computed on a unitary basis and includes an alternative minimum tax.

The M.S. 298.40 Limitation Calculation

The 1987 income tax law reduces the rate for businesses from 12 percent to 9.5 percent as of January 1, 1987. But it also imposes an alternative minimum tax on companies that would otherwise not owe any tax. The new alternative minimum tax for 1987, 1988, and 1989 is .1 percent (1/10th of 1%) of the property, payroll and sales in Minnesota. Beginning with the 1987 Occupation Tax Report, businesses must compute both the hypothetical income tax and the new alternative minimum tax. The higher amount is then added to the sales tax amounts to determine the M.S. 298.40 limitation.

Royalty Tax

Effective January 1, 1990, the royalty tax will be eliminated. Mining royalties will be subject to the same withholding provisions as other royalties.

The royalty tax is not in lieu of personal income tax on royalties. Resident and nonresident recipients (individuals, partnerships, and corporations) 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 residents and nonresidents 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.

Gross Earnings Tax On Taconite Railroads

Effective January 1, 1989, the taconite railroad gross earnings tax will be eliminated. At that time, taconite railroads will be subject to the same tax provisions as other railroads, which have property tax assessed by the counties but valued by the state.

Taxes on Other Mining And/Or Exploration

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

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

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

Applicable Taxes for Base and Precious Metals And Energy Minerals

(Comparison of Pre-1987 Law and New Law)

	Pre-1987 Laws	New Laws
Occupation Tax:	Yes 14.5% Less Credits	Yes 9.5% Same as Corporate Income Tax
Corporate Income Tax:	No	No
Ad Valorem Tax (on Value of Ore Reserves)	Yes	No Repealed
Ad Valorem Tax (Smelter and Plant Facilities)	Yes	Yes
Severed Mineral Interest:	Yes	Yes
Royalty Tax:	Yes	No Repealed After 1989
Production Tax:	No	No
Sales and Use Tax:	Yes	Yes
Net Proceeds Tax:	No	Yes (2%)

Taxes on Other Mining And/Or Exploration

Ad Valorem Tax

Possibly the most significant change made in the reform of the state's mining tax laws was the removal of any ad valorem tax on the value of minerals other than taconite or iron ore. The removal of this tax on ore reserves is expected to further encourage the current interest in exploration for base and precious metals.

Companies mining any of the above minerals would be subject to the property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and not subject to ad valorem tax.

In 1987, the Revenue Department was advised by the St. Louis County Assessor that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Mill rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

Occupation Tax

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

The 1987 Legislature reduced the Corporate Income Tax from 12 percent to 9.5 percent and added an alternative minimum tax of .1 percent (1/10th of 1%) of the total property, payroll, and sales.

Net Proceeds Tax

A Net Proceeds Tax was imposed on the mining of all ores and minerals except sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, soil, iron ore and taconite. The tax is 2 percent of the net proceeds from mining such ores.

Net proceeds are defined as the gross proceeds from mining less allowable deductions for mining costs. The net proceeds tax is effective for taxable years beginning after December 31, 1986. The tax is due on June 15 of the year following the calendar year of the report.

Sales and Use Tax

Any firms mining or processing other minerals must continue to pay the 6 percent Sales and Use Tax on all purchases, except those items used or consumed in industrial production that are specifically exempt.

Examples of significant items that are exempt from sales tax are explosives, drill bits, and grinding balls and rods. Explosives and process chemicals such as flotation reagents are exempt under the general "chemical" exemption available to all manufacturers, while drill bits, grinding rods and balls, and rod and ball mill liners would be included under the "accessory tool" manufacturing exemption.

Various statutes provide for reduced sales tax on capital equipment installed in new or expanding businesses.

Royalty Tax

The Royalty Tax on taconite, iron ore and other minerals was repealed after December 31, 1989. However, the law also requires that all persons or companies paying royalty begin to withhold Minnesota income tax from their royalty payments and remit the withheld tax and applicable information to the State of Minnesota, Department of Revenue.

1987 Sales Tax Law Change Summary

Gas not used on highways subject to sales tax. As of June 1, 1987, either the petroleum tax or the sales and use tax applies to all motor fuels. Under the new law, a purchaser who pays the petroleum tax at the time of purchase, and receives a refund or credit for a portion of the fuel used for nonhighway purposes MUST pay the 6 percent sales or use tax on the purchase price of that fuel.

The law change does not eliminate the sales and use tax exemption for fuels used or consumed in industrial production. The tax on fuel for nonhighway use applies only to fuel used for nonproduction purposes. Some examples of nonproduction uses of motor fuel are: pickups used for miscellaneous hauling; buses used to haul employees; trucks used to water pit roads, etc.

Services. Sales of the following services are taxed: building cleaning and maintenance; car washing, cleaning, rustproofing, undercoating, and towing services; detective agencies and security services; laundry and dry cleaning; lawn care services; interstate phone calls; parking services; pet grooming services.

Exception: Services performed by an employee for an employer are not taxable. Services performed by a corporation, partnership or association for a similar entity if one entity owns or controls more than 80 percent of the equity interest in the other are not taxable.

Federal tax in base price. As of June 1, federal tax is included in the sales price and is part of the base upon which the sales tax is figured. Previously, all federal taxes, except manufacturer's or importer's excise taxes, were subtracted from the sales price before figuring the Minnesota sales tax. The one exception is for motor vehicle excise tax. Federal excise taxes on motor vehicles are not included in the tax base.

WATS calls exempt. Incoming WATS calls to an individual or business in Minnesota from outside Minnesota, at no charge to the caller, are exempt (eff. 6/1/87). But outgoing interstate calls are now taxable.

Railroad rolling stock taxed. Rolling stock used primarily in Minnesota by a railroad licensed as a common carrier is subject to sales tax. The tax is based on the ratio of intrastate mileage to inter-state or foreign mileage traveled during the carrier's previous fiscal year. This ratio will be applied to the total purchase price of rolling stock used in Minnesota to determine the portion that is subject to state tax. (eff. 6/1/87)

Nonprescription drugs. Since June 1, purchases of aspirin, talcum powder, cough syrup, and band aids have been taxable. Those items, along with a host of other nonprescription drugs and related items will be subject to Minnesota sales tax. Included are:

Analgesics (pain relievers) such as aspirin, Tylenol, Alka-seltzer, rubbing alcohol, and liniments.
Antacids such as gelusil, Rolaids, or Milk of Magnesia.
Burn remedies and sunburn preparations, including Unguentine.
First-aid products such as band-aids and surgical gauze.
Foot products such as corn pads and athlete's foot treatments.

Still exempt are: insulin, hypodermic syringes and needles; medical-surgical rubber goods such as catheters and rubber gloves, miscellaneous medical goods such as hearing aid batteries and elastic bandages; braces, crutches, and other orthopedic devices; and diagnostic agents such as fever thermometers and Clinitest tablets.

Custom computer software. Clarifies that custom computer software is exempt. Canned or pre-written computer programs remain taxable. (eff. 6/1/87)

Due dates and penalties. (These changes take effect for returns and payments due after December 31, 1987):

Due dates. Returns or payments must be postmarked by the U.S. Postal Service on or before the due date. On late returns, the received date will be used to compute the amount of any penalties.

Payment date change. The sales tax return and payment date is changed from the 25th to the 20th day of each month including the accelerated payment of the June liability.

For additional information on any of the law changes covered in this bulletin, write to:

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