MINNESOTA
MINING TAX GUIDE

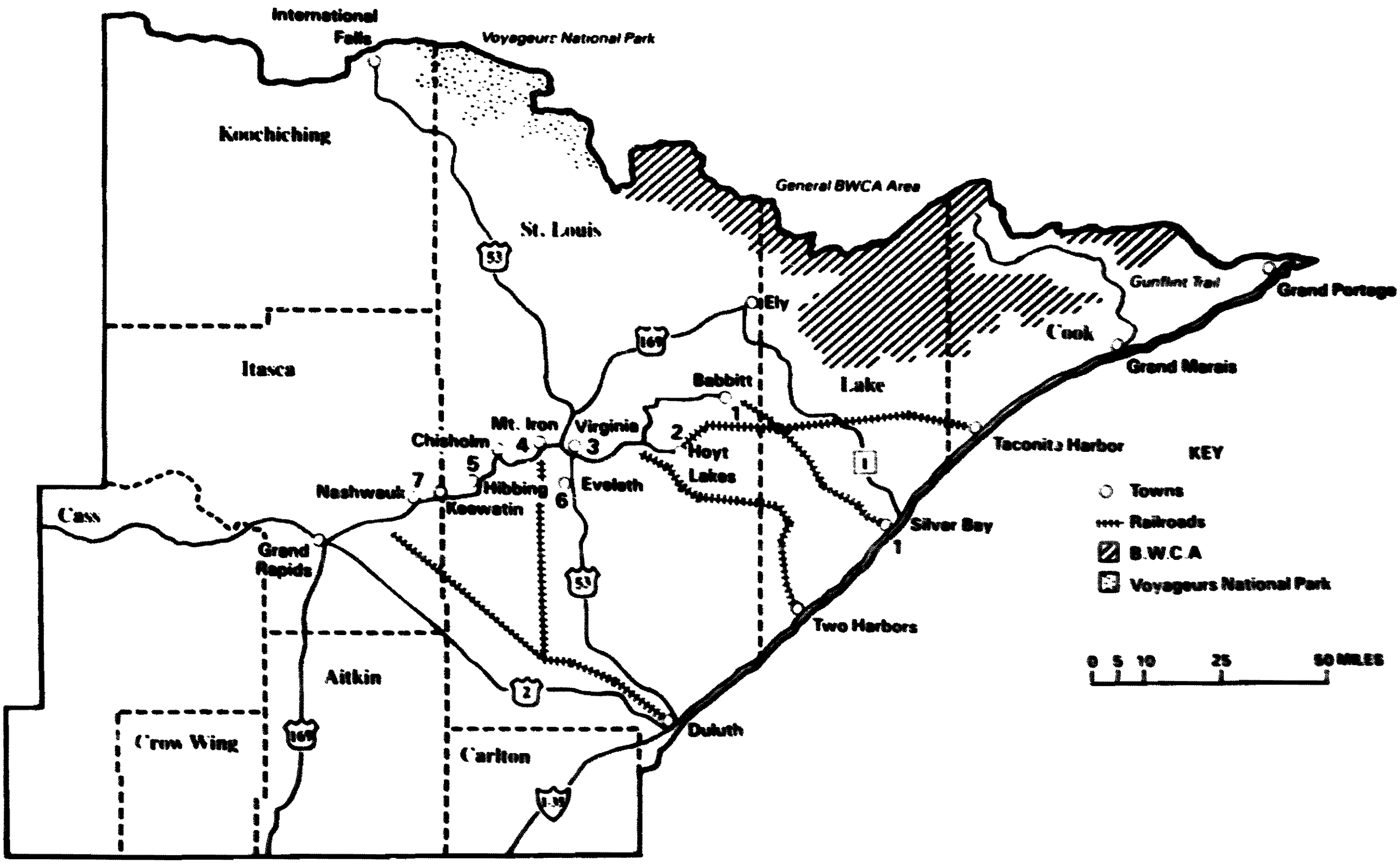
MINNESOTA Department of Revenue

Minerals Tax Office

October, 1992

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



Company	Effective Capacity* (million tons)
1) CYPRUS NORTHSHORE MINING CORP. Owner: Cyprus Mineral Company (100%)	4.0
2) LTV STEEL MINING COMPANY[a] Cliffs Mining Company, Managing Agent Owner: LTV Steel (100%)	8.0
3) MINORCA PLANT Owner: Inland Steel Mining Co. (100%)	2.5
4) MINNTAC PLANT Owner: USX Corporation (100%)	15.0
5) HIBBING TACONITE COMPANY Cliffs Mining Company, Managing Agent Owners: Bethlehem Steel Company (70.3%) Pickands Mather & Company (15%) The Steel Company of Canada, Ltd. (14.7%)	8.5
6) EVELETH MINES Oglebay Norton Company, Managing Agent Owners: Rouge Steel Company (41.7%) Oglebay Norton Company (14.5%) Virginia Horn Taconite (Armco) (33.1%) Ontario Eveleth Company (Stelco) (10.7%)	5.4
7) NATIONAL STEEL PELLET COMPANY Owner: National Steel Corporation (100%) National Steel Ownership: National Intergroup (30%) Nippon Kokan KK (70%)	4.7
TOTAL EFFECTIVE CAPACITY:	48.1

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

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

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ABOUT THE COVER

FRONT COVER

The front cover shows a recently loaded DM&IR train, pellets still steaming, on its way from the Iron Range to the DM&IR loading docks in Duluth.

The photograph was provided by the Duluth, Missabe and Iron Range Railway Company.

BACK COVER

The back cover shows an iron ore carrier entering the Duluth harbor under the famous aerial lift bridge, heading toward the loading docks.

The photograph, taken by Seaquist Photography, was furnished by the City of Duluth Convention and Visitors Bureau.

INTRODUCTION

The Minnesota Mining Tax Guide is published to identify all Minnesota mining-related taxes paid by the mining and exploration industry. It also serves as a ready reference of current and historical information for the reader.

This book strives to simplify the complicated tax statutes using language that is easy to understand and comprehend through nontechnical narratives, tables, graphs and flowcharts. Emphasis is placed on providing clear and concise information that can be used by officials of the state, counties, municipalities, school districts, mining and steel industry personnel, and concerned citizens.

The Taconite Production Tax is the largest tax paid by the mining industry and a major source of revenue to the counties, municipalities, and school districts where taconite mining exists. This section provides current and historical information on the total taconite produced and the amount of production tax paid. It also explains how the tax is distributed. Administrators and governing bodies of local counties, municipalities, and school districts can use this information when determining budgets, planning future projects and setting tax levies.

Other major taxes paid by the mining industry are Occupation Tax (similar to income tax), Royalty Withholding Tax, and Use Tax (sales tax). These taxes are all paid directly to the state with the money placed in the state's general fund. Though the information on these taxes is not as detailed as the production tax, these sections aim to provide a basic understanding of what each tax is and how it works.

Other taconite and iron ore related taxes, which are paid directly to the counties, are included. These sections are the Ad Valorem taxes, which are similar to property taxes. They are assessed on taconite railroads, unmined taconite, auxiliary mining lands for taconite operations, unmined natural ore, and severed mineral interests.

Taxes that apply to the exploration and mining of minerals other than taconite and iron ore are also identified and explained. These minerals include gold, silver, copper, nickel and lead, among many others. Although several taxes applying to taconite and iron ore also apply to these minerals, the Net Proceeds Tax is exclusive to these other minerals.

A brief section is also included on the Gravel Tax. This tax is a production tax on the removal of aggregate material. This tax is collected by the county, but the distribution of the funds is mandated by the state.

All information included in this publication has been developed from tax returns, reports and other information provided to the Minerals Tax Office by the mining and exploration companies and other Minnesota state agencies.

Figure 1
DISTRIBUTION OF MINING TAXES

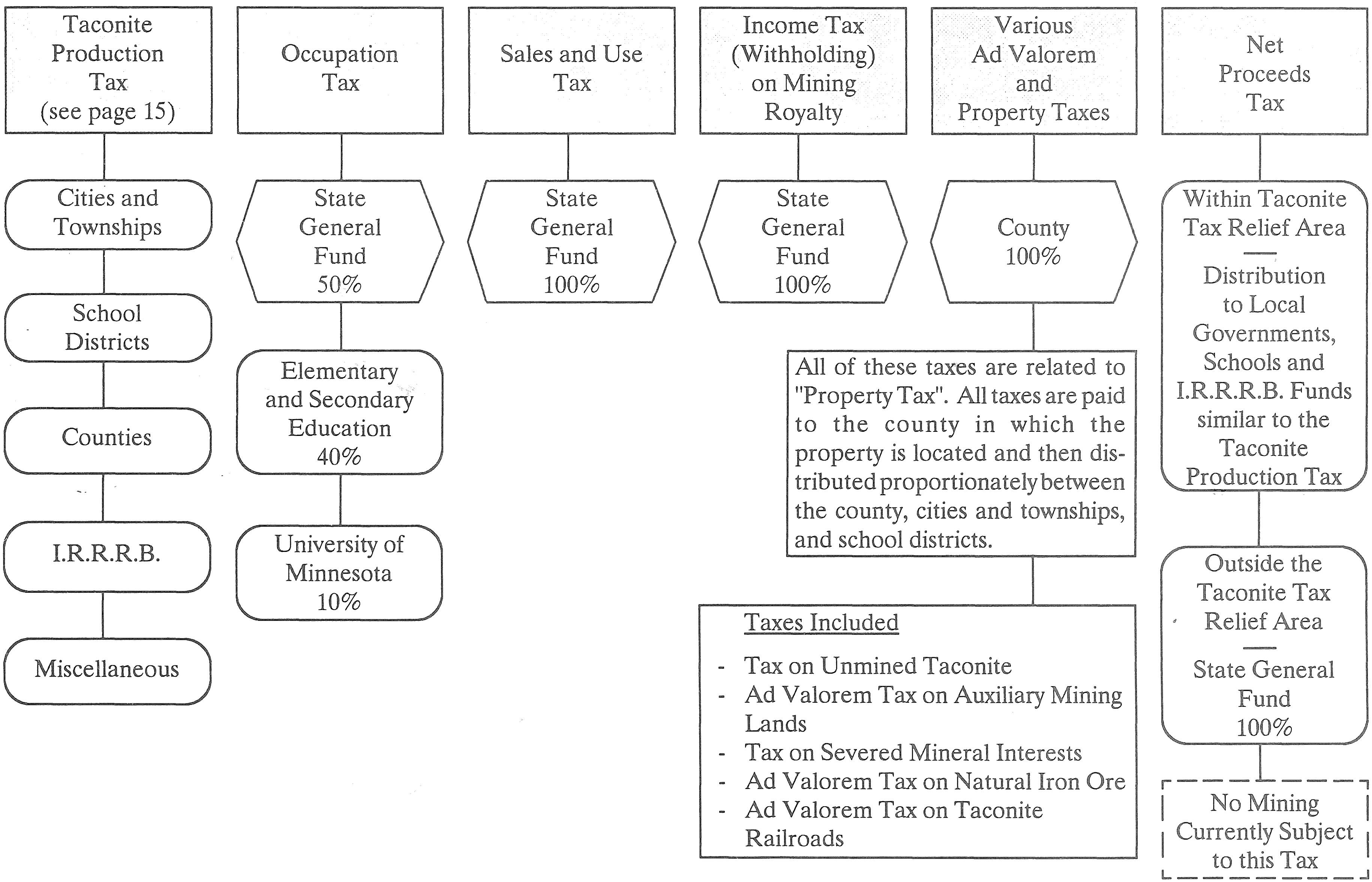
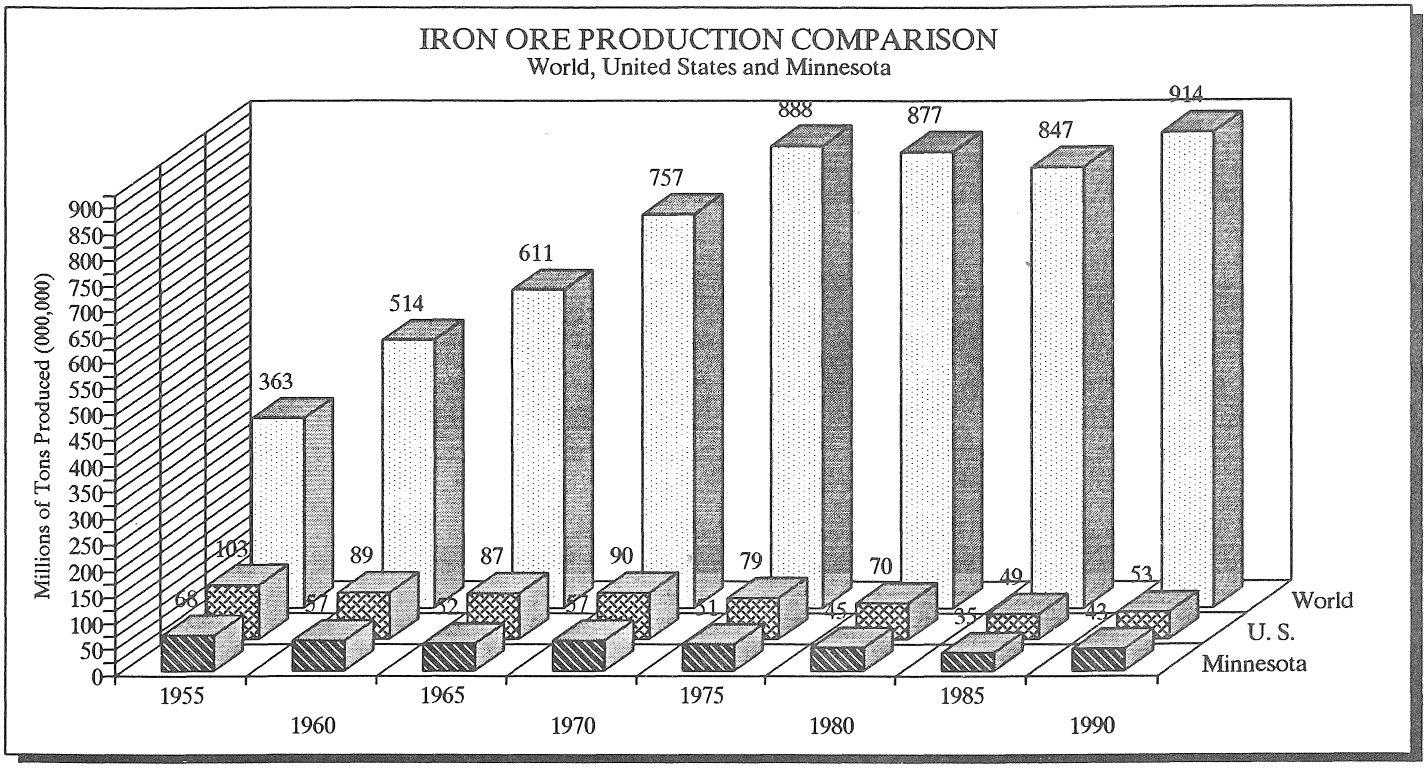


Figure 2



As this chart shows, the U. S. percentage of world production has continued to decline gradually for the last four decades. However, Minnesota's percentage of U. S. production is gradually increasing, from the 60% range in the 1950's and 60's, to the 80% range in the 1990's. Not shown is the fact that taconite production in Minnesota accounts for 99%+ of the Minnesota iron ore production.

Figure 3

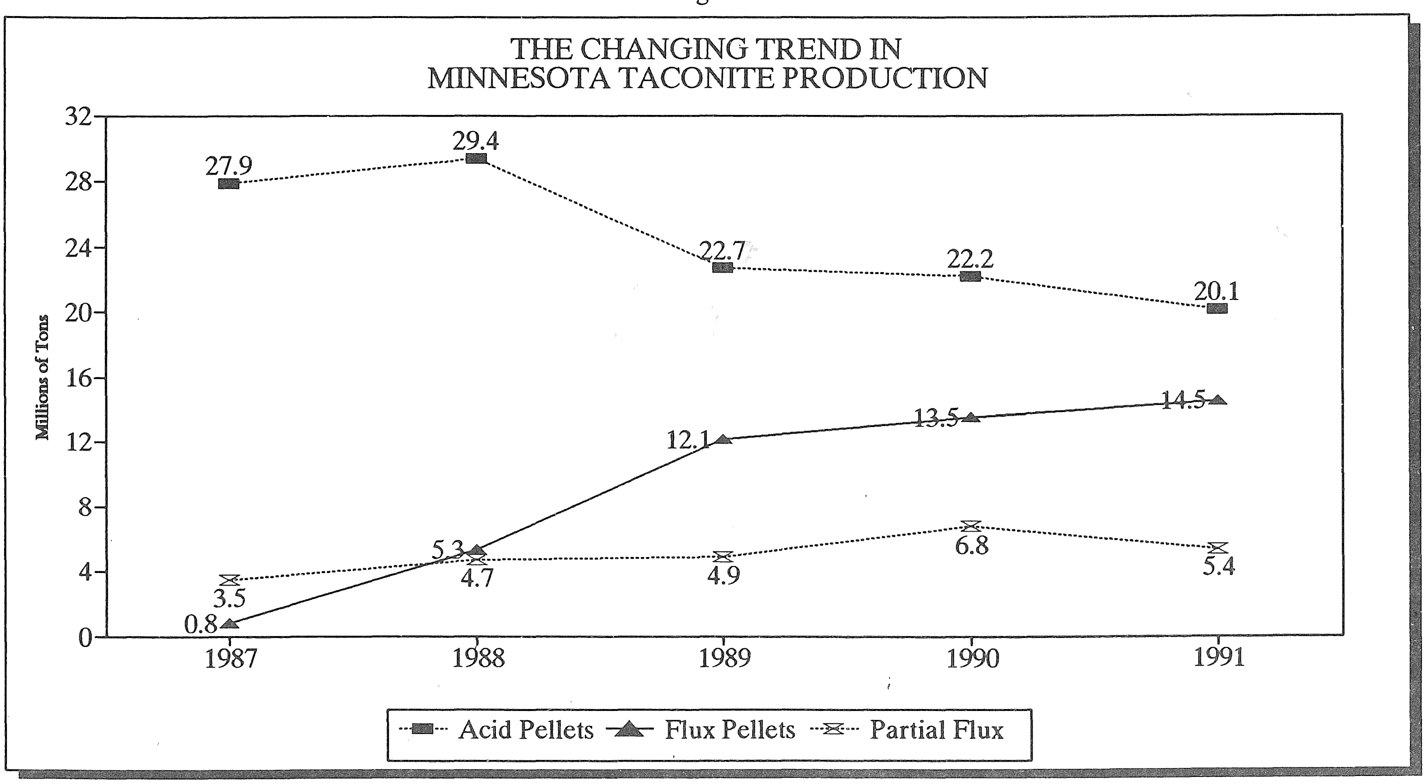


Figure 4

HISTORY OF MINNESOTA TACONITE PRODUCTION

(Taconite Production Tax Report Tonnages)

	Butler	Erie/ LTV	Eveleth	Hibbing	Inland	National	Reserve/ Cyprus	USX	Total
1949-1954	---	785,426	---	---	---	---	587,134	546,563	1,919,123
1955	---	195,979	---	---	---	---	521,200	623,491	1,340,670
1960	---	7,144,214	---	---	---	---	5,446,342	799,365	13,389,921
1961	---	6,772,654	---	---	---	---	5,652,522	761,913	13,187,089
1962	---	7,593,349	---	---	---	---	6,153,812	771,890	14,519,051
1963	---	7,852,473	---	---	---	---	8,044,362	798,405	16,695,240
1964	303	8,009,243	---	---	---	---	9,667,975	827,713	18,505,234
1965	10,700	8,039,657	52,826	---	---	---	10,023,520	877,459	19,004,162
1966	70	8,551,944	1,536,370	---	---	---	10,829,799	758,544	21,676,727
1967	1,617,409	9,900,479	1,738,068	---	---	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	10,718,707	1,800,124	---	---	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	10,198,586	1,916,899	---	---	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	10,743,031	1,986,000	---	---	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	10,192,628	2,055,131	---	---	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	9,972,068	2,141,233	---	---	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	11,657,631	2,065,042	---	---	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	10,897,352	2,171,678	---	---	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	10,884,511	2,164,677	---	---	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	10,778,287	2,291,714	303,419	---	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	4,646,451	2,572,909	2,150,170	232,457	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	7,424,801	4,924,732	5,408,928	1,925,378	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	8,820,258	5,604,688	6,250,348	2,238,443	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,679,043	5,778,256	6,800,202	1,407,598	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	7,943,641	5,879,859	7,125,897	2,385,967	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	3,963,897	4,611,260	5,703,410	1,792,702	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	2,045,065	3,265,821	4,205,470	2,136,155	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	4,696,117	3,932,117	6,075,049	2,032,164	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	4,862,497	2,943,613	5,059,291	1,821,941	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	4,232,962	3,455,690	4,881,987	1,807,451	4,021,372	1,433,898	5,617,695	25,451,055
1987	---	6,774,330	3,481,280	7,685,375	2,118,660	4,314,534	Closed	7,668,870	32,043,049
1988	---	7,888,582	4,238,636	8,653,270	2,247,840	4,607,944	---	11,848,960	39,485,232
1989	---	7,372,667	4,910,384	8,186,626	2,269,177	4,745,024	CYPRUS	11,846,319	39,330,197
1990	---	7,798,292	4,417,255	8,136,923	2,265,876	4,809,930	2,384,061	12,709,299	42,521,636
1991	---	6,887,320	3,393,411	8,016,302	2,472,978	4,850,261	2,005,755	12,993,139	40,619,166
	40,125,707	259,686,136	85,329,673	94,642,667	29,154,787	81,839,228	225,137,428	247,847,090	1,063,762,716

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

Reserve Mining Company became Cyprus Northshore Mining Corporation in 1989.

Numbers after 1986 do not include flux.

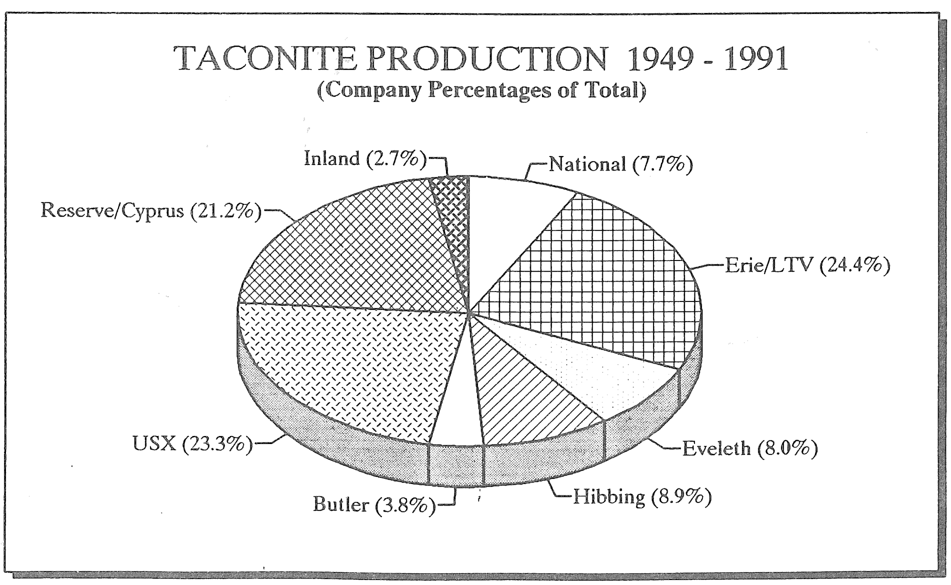


Figure 5

SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY

(000's)

TAX	1982	1984	1986	1987	1988	1989	1990	1991	1992 Est.
Ad Valorem - Unmined Natural Ore									
- (Year Assessed)	$ 3,545	$ 3,326	$ 2,626	$ 2,372	$ 1,242	$ 874	$ 644	$ 550	$ 400
Occupation - Taconite	3,348	29,915	6,234	5,356	2,993	350	2,057	2,008	2,500
- Natural Ore	719	442	343	789	294	145	11	32	20
Taconite Production	80,305	64,514	48,658	51,184	57,402	72,149	78,930	82,411	81,400
School Bonds	176	775	699	673	720	862	980	995	1,000
Railroad Gross Earnings - Taconite	1,354	1,678	1,671	1,405	1,397	N/A	N/A	N/A	N/A
Royalty - Taconite	4,093	4,564	2,436	1,959	2,540	2,646	N/A	N/A	N/A
- Natural Ore	619	536	208	352	179	244	N/A	N/A	N/A
Unmined Taconite (Year Assessed)	285	321	385	393	365	355	353	350	350
Sales & Use (Taconite Only)	7,828	7,110	4,890	5,287	8,352	11,113	13,127	11,860	12,000
TOTAL: (Taconite Only)	$ 97,389	$ 108,879	$ 64,973	$ 66,257	$ 73,769	$ 87,474	$ 95,447	$ 97,624	$ 97,250
TONS PRODUCED: (Taconite)	23,445	35,689	25,451	32,109	39,485	39,375*	42,522*	39,922*	38,000*
TOTAL TAXES PAID ON PER TON BASE: (Taconite)	4.15	3.05	2.55	2.06	1.87	2.22	2.24	2.45	2.56

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

NOTE: Numbers may not add up due to rounding.

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

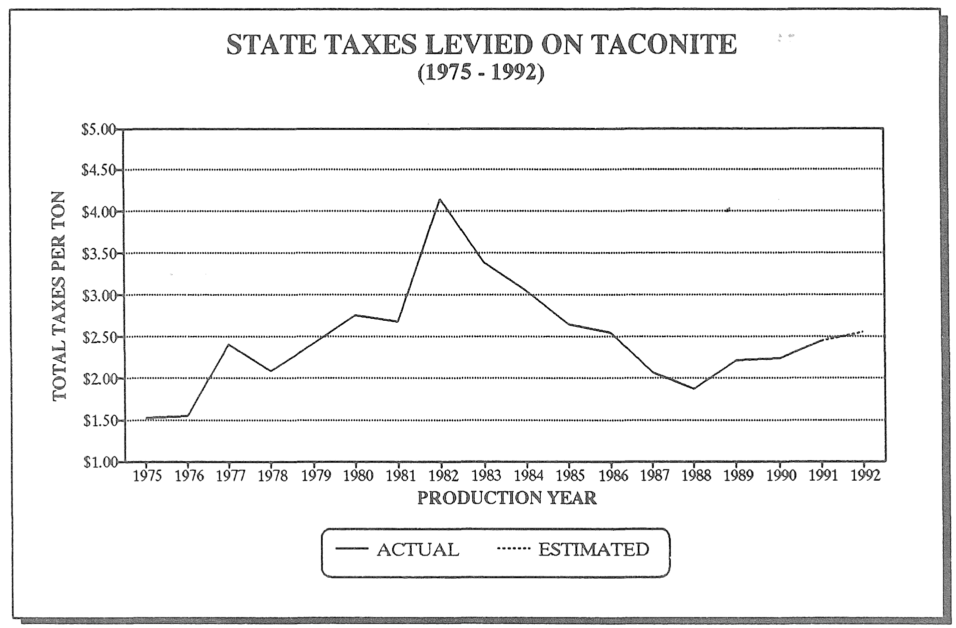


Figure 6

MINNESOTA TAXES LEVIED ON TACONITE

Production Year	Unmined Taconite Tax	Sales & Use Tax	Production Tax	Occupation Tax	Royalty Tax	School Bonds	Railroad Gross Earnings Tax	Total Taxes	Total Tons Produced	Total Taxes Per Ton
1960	$ ---	$ ---	$ 735,708	$ 638,489	$ 1,280,553	$ 1,741,820	$ 815,952	$ 5,212,522	13,383,000	$ .39
1965	---	---	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	.32
1970	64,000	Not Avail.	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
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
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39
1984	321,389	7,110,166	64,514,255	29,915,354	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787	9,906,688	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989	355,065	11,112,722	72,149,188	349,691	2,645,527	862,122	**	87,474,315	39,375,431	2.22
1990	352,935	13,127,042	78,929,646	2,057,281	*	980,368	**	95,447,273	42,521,636a)	2.24
1991	349,551	11,860,378	82,411,317	2,007,906	*	994,841	**	97,623,993	39,921,950a)	2.45
1992 Est.	350,000	12,000,000	81,400,000	2,500,000	*	1,000,000	**	97,250,000	38,000,000a)	2.56

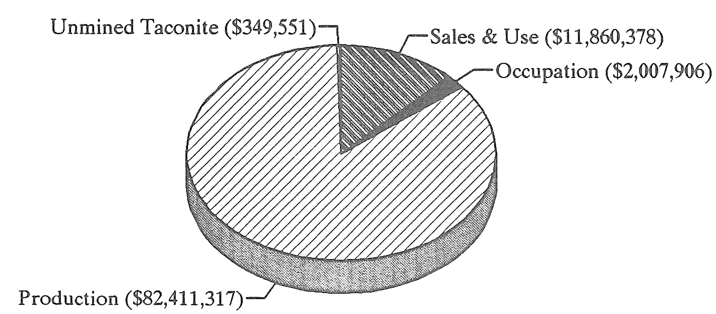
Taxes often levied (assessed) for one year and paid in the following year

* Repealed effective after December 31, 1989.

** Repealed effective after December 31, 1988.

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

1991 TAXES LEVIED



TACONITE PRODUCTION TAX

The Taconite Production Tax is a severance tax paid on concentrates or pellets produced by the various taconite companies. It is paid "in lieu of" ad valorem taxes on taconite and lands containing taconite. With some exceptions, it also excludes land and structures used in the production of taconite from ad valorem taxes. (Special ad valorem taxes are discussed in detail on pages 38 and 40).

The taconite production tax rate for concentrates produced in 1991 was $2.054 per taxable ton. The tax is levied on "taxable tons" which are the average tonnage produced during the current and previous two production years. The taconite production tax rate for concentrates produced in 1990 was $1.975 per taxable ton. The 1991 tax rate is the 1990 rate escalated by the percentage increase in the Gross National Product Implicit Price Deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The rate was frozen at $1.975 for the 1990 production year. For production year 1991, the escalator was allowed to take effect. Normally, the escalator takes effect each year unless the rate is frozen or changed by the legislature.

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

LEGISLATIVE CHANGES

The 1992 legislature enacted two primary changes in the taconite production tax law. The first change froze the production tax rate at $2.054 per taxable ton for production years 1992 and 1993. The law's tax escalator is scheduled to resume for production year 1994.

The second change created a taconite economic development fund for production years 1992 and 1993 equal to 10.4-cents per taxable ton. Each producer's share can be spent for equipment or research and development in Minnesota on mining technology or taconite, iron, or steel production technology upon consent of a joint labor-management committee. Funds not released within two years of deposit shall go two-thirds to the Taconite Environmental Protection Fund and one-third to the Northeast Minnesota Economic Protection Trust Fund. The economic development fund will be administered by the I.R.R.R.B. It is hoped this provision will foster greater cooperation between management and labor thus making Minnesota taconite more competitive in the marketplace.

FLUX PELLETS

Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. All of the companies have experimented with flux pellets. Two companies, Inland Steel and USX, are producing fluxed pellets. Cyprus and Eveleth Mines are producing a partially fluxed pellet containing a low percentage of limestone additive. M.S. 298.24, Subd. 1, clause (e) allows the weight of flux added to be subtracted from the weight of pellets for production tax purposes. All tables in the Minnesota Mining Tax Guide with production statistics use an equivalent or calculated weight for fluxed pellets. The taxable weight is the dry weight less the weight of the flux. The weight of the flux is determined by a metallurgical calculation based on the analyses of the finished pellet, the concentrate, and the flux stone. Beginning with 1988, a flux credit was allowed against production tax.

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the weight of the flux is shown on Figure 24.

PELLET WEIGHING

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

DEFINITION OF TACONITE TAX RELIEF AREA

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

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

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

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

TACONITE PRODUCTION TAX DISTRIBUTION CALCULATION

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the I.R.R.R.B. Each county auditor is responsible for making the taconite aid payments to the various jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account and issues taconite property tax relief checks to the other counties.

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

The proceeds of the 1991 taconite production tax (payable 1992) are distributed by statute as follows (all figures are cents per taxable ton):

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

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

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 28.1-cents, I.R.R.R.B. was 5.6-cents, and the N.E. Minnesota Economic Protection Fund was 2.8-cents. *The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 10.*

DISTRIBUTION OF FUNDS (M.S. 298.28)

Subd. 2 - Taconite Cities and Towns

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

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

If concentrating is split between two cities or towns, the revenue (1.5-cents/ton) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples of this are Cyprus (Babbitt and Silver Bay) and Eveleth Mines (Eveleth, Fayal Township, and McDavitt Township). *Distribution detail in Figure 13.*

Subd. 3 - Taconite Municipal Aid Account

The Taconite Municipal Aid payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. This amount is then reduced according to the percentage aid guarantee provisions of M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, and fiscal need factors.

The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under Subdivision 6 on this page. The statutory references governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. *Distribution detail in Figure 13.*

Subd. 4(b) - School District $.055 Fund

A total of $.055 per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating.

In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district. *Distribution detail in Figure 14.*

Subd. 4(c) - School $.22 Fund

All taconite companies pay $.22 per taxable ton into a fund which is split among the 18 school districts comprising the taconite relief area. Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. *Distribution detail in Figure 14.*

Subd. 4(d) - Taconite Referendum Fund

Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The Taconite Referendum Fund pays the difference between the local levy and $175 per pupil unit. The payment is made on July 15 each year. The fund receives money based on the theoretically escalated portion of the 22-cent school fund. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Protection Trust (one-third). Note: A district receiving money from the Referendum Fund shall reserve $25 per pupil unit (of the $175 authorized) for outcome-based learning programs approved by the Commissioner of Education. *Distribution detail in Figure 14.*

Subd. 5(a) - Counties

The allocation of 16.5-cents per taxable ton to taconite counties (subject to adjustment by M.S. 298.225) is to be distributed under Subd. 5(b) through (d). This 16.5-cents was subject to escalation prior to 1986. By 1986, the 13-cent amount in Subd. 5(b) had increased to 20.5-cents and was frozen there. The 3.5-cent amount for county road and bridge covered in Subd. 5(d) had increased to 5.5-cents and was also frozen at that level. The amounts listed in (b) and (d) are the statutory amounts prior to escalation. *Distribution detail in Figure 16.*

Subd. 5(b) - Taconite Counties

Thirteen-cents per taxable ton is distributed to the county in which the taconite was mined or quarried or in which the concentrate is produced (split in same manner as taconite cities and towns), less any amount distributed in Subd. 5(c). *Distribution detail in Figure 16.*

Subd. 5(c) - Counties - Electric Power Plant

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one-cent of the 13.0-cents-per-ton (for that company) shall be distributed to the county in which the power plant is located. (This one-cent is not escalated, but is subject to M.S. 298.225 adjustment).

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

Each county receives a portion of the aid in the same manner as Taconite Cities and Towns, to be deposited in the county road and bridge fund. The basic allocation is 3.5-cents per taxable tons subject to adjustment as per M.S. 298.225. *Distribution detail in Figure 16.*

Subd. 6 - Taconite Property Tax Relief

A total of 15-cents per ton escalated by the Gross National Product Implicit Price Deflator is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs. The escalation feature was frozen for 1991 and 1992. For the 1991 production year, the rate was 26.9-cents per taxable ton.

The Taconite Homestead Credit reduces the tax paid by owners of certain properties located on the Iron Ranges. The properties receiving this credit are owner-occupied homes and owner-occupied farms. The tax on all of the land comprising the farm is used in determining the amount of credit for a farm. Prior to 1983, the credit on farms was limited to 240 acres.

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941, or currently has a taconite mine, processing plant or electric generating facility, the tacontie credit is 66 percent of the tax on that property to a maximum of $273.70 for taxes payable in 1992. 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 $248.40 for taxes payable in 1992.

The taconite homestead credit cannot reduce the "effective tax rate" on each parcel of property below 95 percent of the "base year effective tax rate" multiplied by the ratio of the current year's local tax rate to the payable 1989 local tax rate. "Effective tax rate" is the net tax divided by the market value, and the "base year effective tax rate" is the payable 1988 effective tax rate on a property with an identical market value to that of the property receiving the credit in the current year. The amount of the taconite homestead credit cannot be less than $10.00 per homestead. The total amount of taconite property tax relief paid in each county and school district is listed in Figure 8. An example of the calculation is shown on page 13.

The statutory references governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136, and M.S. 298.28, Subd. 6. This credit is guaranteed by the N.E. Minnesota Economic Protection Fund as stated in M.S. 298.293. *Distribution detail in Figure 8.*

Electric Power Plant Aids From Property Tax Relief

Subd. 6(b)

For any electric power plant located in another county (as described in 5c on the preceding page), .1875-cents per taxable ton from the Taconite Property Tax Relief account shall be paid to the county. The amount was subject to escalation until frozen for the 1987 production year. The M.S. 298.225 guarantee also applies. For the 1991 production year, the total amount was .2973-cents per taxable ton (LTV's taxable tonnage).

Subd. 6(c)

This subdivision allocates .5625-cents per LTV's taxable tonnage to the Cook County school district due to the LTV power plant in Cook County. Because of escalation (frozen in 1987), this amounted to .8881-cents per taxable ton (LTV tons) for 1991. The frozen escalated rates are .296035-cents for the county and .888104-cents for the Cook County school.

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

Taconite Railroad

Up to 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each governmental unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed is $3,160,899. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225.

Beginning in 1989, the taconite railroad gross earnings tax was abolished and these railroads were made subject to property tax, the same as other railroads.

Prior to 1989, every taconite railroad paid a 3.75 percent gross earnings tax to the state. Taconite railroads are wholly owned by a mining company and are principally used for the transportation of taconite concentrates. They are not used to haul freight commercially as a common carrier.

Additional Payments

1. In 1978 and each year thereafter, there has been 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.

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

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

School Bond Credits and Payments

The legislature has authorized payment of school bonds from taconite revenues at various times. This has been done both with production tax credits for bonds paid by a mining company and direct payments. The first credits were authorized when whole new towns were built for the

Erie and Reserve taconite plants in Hoyt Lakes and Silver Bay. Since that time, school bond payments have been authorized by the legislature for most Iron Range school districts. Taconite revenues have been authorized to fund 100, 90, or 80 percent of the bond payment, depending on the school district situation and year of enactment. *Distribution detail in Figure 15.*

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

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

3. The 1988 legislature passed a provision that has the production tax pay a portion of the bonds issued by the following four school districts: 318 (Grand Rapids), 701 (Hibbing), 706 (Virginia), 708 (Tower), and 710 (St. Louis County). Money for the payments are deducted, in equal shares, from the distributions made to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust. *Distribution detail in Figure 15.*

4. The 1990 legislature authorized additional school bonds for eight school districts. These payments are made by the respective county auditors from production tax revenues. Money for the payments is deducted in equal shares from the Environmental and Economic Protection Funds. *Distribution detail in Figure 15.*

5. The 1992 legislature authorized three additional school bond issues. Although the bonds will not be issued in time to include this year, the three districts are Grand Rapids, Lake Superior, and Virginia.

<u>M.S. 298.225</u> - The recipients of the taconite production tax as provided in M.S. 298.28, subdivisions 2 to 5, subdivision 6, paragraphs (b) and (c), subdivisions 7 and 8 are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount distributed from the fund will be reduced proportionately by two percent per each 1,000,000 tons by which the production is less than 42,000,000 tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying two percent times 2.2 million tons.

This aid guarantee is funded equally from the initial current year distributions to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. If the initial distributions are insufficient to fund the difference, the Commissioner of the I.R.R.R.B. shall make the payments of any remaining difference from the corpus of the Taconite Environmental Protection Fund and the corpus of the Northeast Minnesota Economic Protection Trust Fund in equal proportions, as directed by the Commissioner of Revenue. The aid payments covered by this variable guarantee are listed as follows:

1. 2.5-cents City and Town Fund.
2. 12.3-cents Taconite Municipal Aid.
3. 3-cents escalated to I.R.R.R.B.
4. .2-cents R.A.M.S.
5. .1875-cents power plant transfer from Taconite Property Tax Relief Account to Cook County.

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

1. 13.0-cents Taconite County Fund.
2. 3.5-cents Taconite County Road and Bridge Fund.

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

1. 22-cents School Fund.
2. 5.5-cents School District Fund.
3. Taconite Referendum Fund.
4. .5625-cents power plant transfer from Taconite Property Tax Relief Account to S.D. 166.

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

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1990 are listed in Figure 8. Total amounts distributed as shown in Figure 8 are determined by the formula described on page 13 and do not equal the total amount of production tax allocated for property tax relief shown in the tables as collections or payments into account.

The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. (NOTE: The $7,914,709 is split between the local municipalities, counties, and schools based upon the current local tax rate).

Figure 7

TACONITE PROPERTY TAX RELIEF FUND BALANCE

Year Payable	Payments into Account*	Interest Earned**	Payments Out (by formula)	Balance December 31
1982	$19,317,000	N/A	$16,207,800	$11,709,536
1983	16,381,200	N/A	17,600,000	10,494,112
1984	13,261,800	N/A	19,109,000	4,183,498
1985	8,884,100	N/A	10,357,400	3,041,834
1986	9,398,900	$426,700	10,572,700	2,308,000
1987	9,122,400	449,800	10,971,500	908,700
1988	9,727,800	325,700	10,883,300	79,000
1989***	5,904,200	214,400	8,081,000	9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,818	505,139	7,914,709	5,805,325
1992	10,891,942	367,000 Est.	8,300,000 Est.	8,764,267 Est.
1993 Est.	10,593,000			

* Listed under year payable, 1992 payments result from 1991 production.

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

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

Figure 8

TACONITE PROPERTY TAX RELIEF FUND DISTRIBUTION

Total Listed by School District Area:

	Mobile Home	Real Property
001 - Aitkin	$ 3,363	$ 547,860
166 - Cook County	1,860	271,632
182 - Crosby/Ironton	4,197	579,430
316 - Coleraine	4,405	395,683
318 - Grand Rapids	17,057	1,589,994
319 - Nashwauk/Keewatin	942	164,626
381 - Lake Superior	3,139	612,528
691 - Aurora/Hoyt Lakes	1,685	344,410
692 - Babbitt	627	193,299
693 - Biwabik	477	105,894
695 - Chisholm	534	183,836
696 - Ely	871	178,157
697 - Eveleth	443	331,648
699 - Gilbert	762	96,819
701 - Hibbing	6,727	598,156
706 - Virginia	620	319,443
708 - Tower/Soudan	426	176,091
710 - St. Louis County	6,621	763,520
712 - Mt. Iron/Buhl	1,500	259,131
TOTAL (Payable 1991):	$56,256	$7,858,453

Total Listed by County Area:

	Mobile Home	Real Property	Grand Total
St. Louis	$21,238	$3,692,163	$3,713,401
Itasca	22,404	2,150,303	2,172,707
Lake	3,023	612,528	615,551
Crow Wing	4,343	603,263	607,606
Aitkin	3,217	524,027	527,244
Cook	1,860	271,632	273,492
Koochiching	171	4,537	4,708
Total (Payable 1991):	$56,256	$7,858,453	$7,914,709

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

The aid amounts listed in Figures 13 and 14 do not include taconite property tax relief.

Figure 9

INSTRUCTIONS FOR COMPUTING TACONITE HOMESTEAD CREDIT TAXES PAYABLE 1992

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

1. Determine the tax on the homestead for the current year.
2. Multiply the amount in step 1 by 66%.
3. Compare the amount in step 2 to $273.70.
4. Select the amount in step 2 or step 3, whichever is less.
5. Subtract the amount in step 4 from the amount in step 1.
6. Determine the tax on the homestead in 1988 -- using the current year's market value.
7. Multiply the result in step 6 by .95 (95%).
8. Divide the current year tax rate by the tax rate in effect for payable 1989.
9. Multiply the result in 7 by the result in step 6.
10. Compare the result in step 5 with the result in step 9. If step 5 is greater than step 9, the amount of the taconite homestead credit is the result in step 4 above. If the result in step 5 is less than the result in step 9, subtract the result in step 9 from the result in step 1. This is the amount of the taconite homestead credit.

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

- In step 2, use 57% instead of 66%
- In step 3, use $248.40 instead of $273.70

66% Taconite Homestead Credit Example - Taxes Payable 1992

Gross Tax Computation		
1.	Market Value	$50,000.00
2.	Net Tax Capacity (1 x 1%)	$500.00
3.	Local Tax Rate	110%
4.	Gross Tax (2 x 3)	$550.00
Preliminary Credit and Net Tax Computation		
5.	Preliminary Taconite Credit (4 x 66%, Maximum $273.70)	$273.70
6.	Preliminary Net Tax (4 - 5)	$276.30
Limited Credit Computation		
7.	Pay '88 Assessed Value (1 x 17%)	$8,500.00
8.	Pay '88 Mill Rate	190 mills
9.	Pay '88 Gross Tax (7 x 8)	$1,615.00
10.	Pay '88 Homestead Credit (9 x 54%, Maximum $700)	$700.00
11.	Pay '88 Tax after Homestead Credit (9 - 10)	$915.00
12.	Pay '88 Taconite Credit*	$418.36
13.	Pay '88 Net Tax (11 - 12)	$496.64
14.	95% of Pay '88 Net Tax (13 x 95%)	$471.81
15.	Pay '89 Local Tax Rate	105%
16.	Pay '92/'89 Tax Rate Ratio (3 / 15)	1.0476
17.	Minimum 1992 Net Tax (14 x 16)	$494.27
18.	Limited 1992 Taconite Credit (4 - 17)	$55.73
Final Credit and Net Tax Computation		
19.	Final 1992 Taconite Credit (Lesser of 5 or 18)	$55.73
20.	Final 1992 Net Tax (4 - 19)	$494.27

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

Figure 10

CENTS-PER-TON
PRODUCTION TAX DISTRIBUTION - 1992
(1991 Production Year)

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.3
Taconite Municipal Aid	16.7
School Districts	42.6*
County	24.2
County Road and Bridge	6.5
Taconite Property Tax Relief	26.9
I.R.R.R.B.	9.4
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	7.8
Taconite Environmental Protection Fund	43.4
N.E. Minnesota Economic Protection Fund	16.4
School Bond Credits and Payments	7.8
State of Minnesota	.1
	205.4

* 34.7-cents-per-ton will be subtracted from state aids or levies a taconite school district would otherwise receive. The 5.5-cent and 22-cent school funds and the school portion of taconite railroad funds are subtracted while the taconite referendum money is in addition to state aid.

1992 PRODUCTION TAX DISTRIBUTION
(Flowchart)

The production tax distributed in 1992 is the 1991 tax due. The taconite production tax rate for concentrates produced in 1991 was $2.054 per taxable ton. The taxable tons for the 1991 production tax are the average tonnage produced in 1989, 1990, and 1991.

The flowchart on the following page attempts to provide a simple and easy to understand picture of where the production tax of $2.054 per taxable ton is distributed. This is a very complex subject with many legal requirements and provisions.

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

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

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

Figure 11

TACONITE PRODUCTION TAX DISTRIBUTION FLOWCHART - 1992

TOTAL TACONITE PRODUCTION TAX

$83,405,958

Production Tax is $2.054 per taxable ton. The 3-year average taxable tons were 40,606,338.

Less: School Bond Credits

$994,641
2.4-c.p.t.

NET PRODUCTION TAX TO BE DISTRIBUTED

$82,411,317

The remaining production tax to be distributed is $2.030 per taxable ton.

The cents-per-ton (c.p.t.) numbers (rounded) indicate the portion of the $2.054 tax paid PER TON distributed to that fund or group of funds.

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

CITIES AND TOWNSHIPS	SCHOOL DISTRICTS	COUNTIES	MISC.	I.R.R.R.B.
$8,739,564 21.5-c.p.t.	$21,275,061 52.4-c.p.t.	$13,246,357 32.6-c.p.t.	$11,055,070 27.3-c.p.t.	$28,095,265 69.2-c.p.t.
City & Township Fund* $1,356,690 3.3-c.p.t.	School District $.055 Fund* $2,524,558** 6.2-c.p.t.	Regular County Fund* $9,846,561 24.2-c.p.t.	Taconite Property Tax Relief $10,891,942 26.9-c.p.t.	I.R.R.R.B. Fund* $2,538,079 6.3-c.p.t.
Taconite Municipal Aid* $6,791,732 16.7-c.p.t.	School $.22 Fund* $9,785,511** 24.1-c.p.t.	County Road & Bridge Fund* $2,615,419 6.5-c.p.t.	R.A.M.S.* $108,128 .3-c.p.t.	I.R.R.R.B. Fixed Fund $1,252,520 3.1-c.p.t.
Taconite Railroad $591,142 1.5-c.p.t.	Taconite Railroad $1,785,380** 4.4-c.p.t.	Taconite Railroad $784,377 1.9-c.p.t.	State of Minn. $55,000 .1-c.p.t.	Taconite Env. Prot. Fund $17,618,006 43.4-c.p.t.
School Bond Payments $2,197,293 5.4-c.p.t.	Tac. Referendum (formerly School Fund Index)* $4,982,319 12.3-c.p.t.		Guarantee Fund M.S. 298.225 M.S. 298.293	Northeast Minn. Economic Prot. Fund $6,686,660 16.4-c.p.t.

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

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

Figure 12

TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1986	1987	1988	1989	1990	1991
City & Township	$ 1,005,214	$ 1,037,379	$ 1,134,857	$ 1,273,832	$ 1,357,960	$ 1,356,690
Taconite Municipal Aid	4,949,028	5,177,066	5,707,488	6,378,838	6,797,130	6,791,732
School District - Regular	2,019,239	1,920,580	2,112,938	2,403,521	2,555,904	2,524,558
School District Fund	7,610,880	7,412,485	8,177,023	9,302,169	9,899,052	9,785,511
Taconite Referendum Fund	4,021,355	4,027,123	4,085,759	5,003,608	4,982,178	4,982,319
County	8,474,378	8,702,769	9,087,474	9,684,687	9,894,236	9,846,561
County Road & Bridge	2,197,104	2,269,243	2,371,223	2,544,745	2,628,013	2,615,419
Taconite Prop. Tax Relief	9,122,405	9,727,842	5,904,193	9,566,917	10,848,818	10,891,942
State	-0-	-0-	-0-	55,000	55,000	55,000
I.R.R.R.B. ($.03 Indexed)	1,650,487	1,760,279	1,994,855	2,325,936	2,548,451	2,538,079
Range Association of Municipalities & Schools	80,115	82,680	90,451	101,530	108,230	108,128
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	240,000	240,000	240,000	240,000	240,000	240,000
Other School Bond Payments			769,937	919,667	1,751,132	1,957,293
Taconite Environmental Protection Fund	3,334,820	4,397,896	9,075,227	13,434,666	15,352,862	17,618,006
N.E. Minnesota Economic Protection Fund	(460,662)	15,365	2,237,226	4,500,653	5,497,261	6,686,660
TOTAL:	$48,657,782	$51,184,126	$57,402,070	$72,149,188	$78,929,646	$82,411,317

* The production tax is collected and distributed in the year following production, e.g., the 1991 production tax was collected and distributed during 1992.

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

Figure 13

TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1992

(Based upon 1991 Production Year Tax Revenues)
(Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite* Railroad	Taconite Municipal Aid	Total
COOK COUNTY				
Schroeder Township	$ ---	$ 47,700	$ 0	$ 47,700
CROW WING COUNTY				
Crosby	---	---	129,208	129,208
Ironton	---	---	42,467	42,467
Riverton	---	---	2,490	2,490
Trommald	---	---	2,872	2,872
Irondale Township	---	---	13,064	13,064
Rabbit Lake Township	---	---	2,302	2,302
Wolford Township	---	---	0	0
ITASCA COUNTY				
Bovey	---	---	89,979	89,979
Calumet	---	---	45,462	45,462
Coleraine	---	---	115,446	115,446
Keewatin	19,315	---	134,463	153,778
Marble	---	---	76,422	76,422
Nashwauk	14,493	---	153,048	167,541
Taconite	---	---	36,623	36,623
Bass Brook Township	---	---	0	0
Grand Rapids Township	---	---	1,379	1,379
Greenway Township	18,456	---	38,261	56,717
Iron Range Township	---	---	14,592	14,592
Lone Pine Township	6,046	---	2,741	8,787
Nashwauk Township	31,202	---	32,028	63,230
LAKE COUNTY				
Silver Bay	103,916	152,706	218,546	475,168
Beaver Bay Township	---	12,565	---	12,565
Crystal Bay Township	---	6,951	---	6,951
Silver Creek Township	---	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
ST. LOUIS COUNTY				
Aurora	2,742	---	176,483	179,225
Babbitt	96,859	166,767	166,113	429,739
Biwabik	---	---	109,750	109,750
Buhl	---	---	122,278	122,278
Chisholm	---	---	505,132	505,132
Ely	---	---	299,065	299,065
Eveleth	48,426	---	389,162	437,588
Franklin	4,077	---	599	4,676
Gilbert	350	---	190,878	191,228
Hibbing	305,803	---	1,379,506	1,685,309
Hoyt Lakes	200,307	152,153	273,255	625,715
Kinney	5,855	---	65,466**	71,321
Leonidas	3,321	---	12,989	16,310
McKinley	---	---	20,075	20,075
Mountain Iron	333,730	---	366,635	700,365
Virginia	20,253	---	1,024,916	1,045,169
Balkan Township	---	---	81,699	81,699
Bassett Township	---	11,745	---	11,745
Biwabik Township	0	---	38,866	38,866
Breitung Township	---	---	16,403	16,403
Eagle's Nest Township	---	---	0	0
Fayal Township	4,028	---	29,650	33,678
Great Scott Township	9,619	---	24,648	34,267
McDavitt Township	66,957	---	21,837	88,794
White Township	19,964	---	316,957**	336,921
Wuori Township	40,971	---	7,977	48,948
TOTALS:	$ 1,356,690	$ 591,142	$ 6,791,732	$ 8,739,564

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

Figure 14

TACONITE PRODUCTION TAX DISTRIBUTIONS TO SCHOOL DISTRICTS - 1992

School Districts	$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001 - Aitkin	$ ---	$ 179,798	$ ---	$180,758	$ 360,556
166 - Cook County	65,434	52,756	427,383	54,294	599,867
182 - Crosby-Ironton	---	282,982	---	197,794	480,776
316 - Coleraine	51,975	1,025,214	---	334,805	1,411,994
318 - Grand Rapids	---	591,677	---	519,724	1,111,401
319 - Nashwauk-Keewatin	143,632	379,809	---	164,859	688,300
381 - Lake Superior	128,273	726,221	552,774	440,116	1,847,384
692 - Babbitt	126,587	380,804	459,421	174,090	1,140,902
695 - Chisholm	---	700,933	---	229,175	930,108
696 - Ely	---	293,083	---	172,943	466,026
697 - Eveleth	98,544	526,533	---	249,484	874,561
699 - Gilbert	771	407,008	---	120,323	528,102
701 - Hibbing	591,302	1,462,925	---	664,134	2,718,361
706 - Virginia	140,029	815,567	---	364,740	1,320,336
708 - Tower-Soudan	---	31,104	---	50,395	81,499
710 - St. Louis County	118,300	626,801	---	445,447	1,190,548
712 - Mt. Iron-Buhl	680,026	509,562	---	228,101	1,417,689
2711 - Mesabi East	379,685	792,734	345,802	391,137	1,909,358
TOTALS:	$2,524,558	$9,785,511	$1,785,380	$4,982,319	$19,077,768

Figure 15

TACONITE PRODUCTION TAX SCHOOL BOND CREDITS AND PAYMENTS

(Payments during 1992 and 1993 from 1991 production year revenues)

School Districts	Year Authorized*	Final Payment Year**	Credit	Payment	Total	Outstanding Balance***
316 - Coleraine	1990	2009	---	$ 76,000	$ 76,000	$ 861,230
318 - Grand Rapids	1988	1997	---	112,200	112,200	670,000
318 - Grand Rapids	1992	N.A.	---	N.A.	---	---
319 - Nashwauk-Keewatin	1982	1993	$130,965	---	130,965	245,000
381 - Lake Superior	1992	N.A.	---	N.A.	---	---
381 - Lake Superior	1990	1995	---	53,144	53,144	250,000
692 - Babbitt	1990	1996	---	34,134	34,134	500,000
695 - Chisholm	1990	2005	---	320,000	320,000	2,803,918
696 - Ely	1990	2000	---	80,515	80,515	965,000
697 - Eveleth	1990	2010	---	320,000	320,000	2,805,924
699 - Gilbert	1990	2010	---	80,000	80,000	826,354
701 - Hibbing	1988	1999	---	363,344	363,344	2,121,875
706 - Virginia	1988	2003	---	216,170	216,170	2,070,000
706 - Virginia	1992	N.A.	---	N.A.	---	---
708 - Tower-Soudan	1988	2003	---	90,288	90,288	860,000
710 - St. Louis County	1982	1994	---	240,000	240,000	1,450,000
710 - St. Louis County	1990	1996	---	105,000	105,000	1,750,000
710 - St. Louis County	1988	2003	---	106,498	106,498	885,000
712 - Mt. Iron-Buhl	1982	1998	863,946	---	863,946	4,055,000
TOTALS:			$994,911	$2,197,293	$3,192,204	$23,119,301
Bonds authorized by 1992 legislature but not yet issued (318, 381 and 706):						$10,779,500
GRAND TOTAL:						$33,898,801

* Legislative year in which taconite funding was enacted.

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

*** Portion of outstanding bond balance to be paid by taconite funds (not including interest).

Figure 16

TACONITE PRODUCTION TAX DISTRIBUTIONS TO COUNTIES - 1992

(Does not include dollars from Taconite Property Tax Relief)

County	Regular County 13.0-Cents	County Road & Bridge 3.5-Cents	Taconite Railroad	Total
Cook	$ 117,108	$ ---	$187,190	$ 304,298
Itasca	571,693	149,852	---	721,545
Lake	724,590	186,991	243,034	1,154,615
St. Louis	8,433,170	2,278,576	354,153	11,065,899
TOTAL:	$9,846,561	$2,615,419	$784,377	$13,246,357

Figure 17

TACONITE PRODUCTION AND TAX REVENUE - BY COMPANY

PRODUCTION YEAR 1991

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	1,986,223	1,456,761	$2.054	$ 2,992,187
Eveleth	3,374,068	4,233,902	2.054	8,696,435
Hibbing	8,016,302	8,113,284	2.054	16,664,685
Inland	2,337,141	2,290,731	2.054	4,705,161
LTV Steel	6,887,320	7,367,838	2.054	15,133,539
National	4,850,261	4,801,738	2.054	9,732,615
USX	12,470,635	12,342,084	2.054	24,486,695
TOTAL:	39,921,950	40,606,338	$2.054	$82,411,317

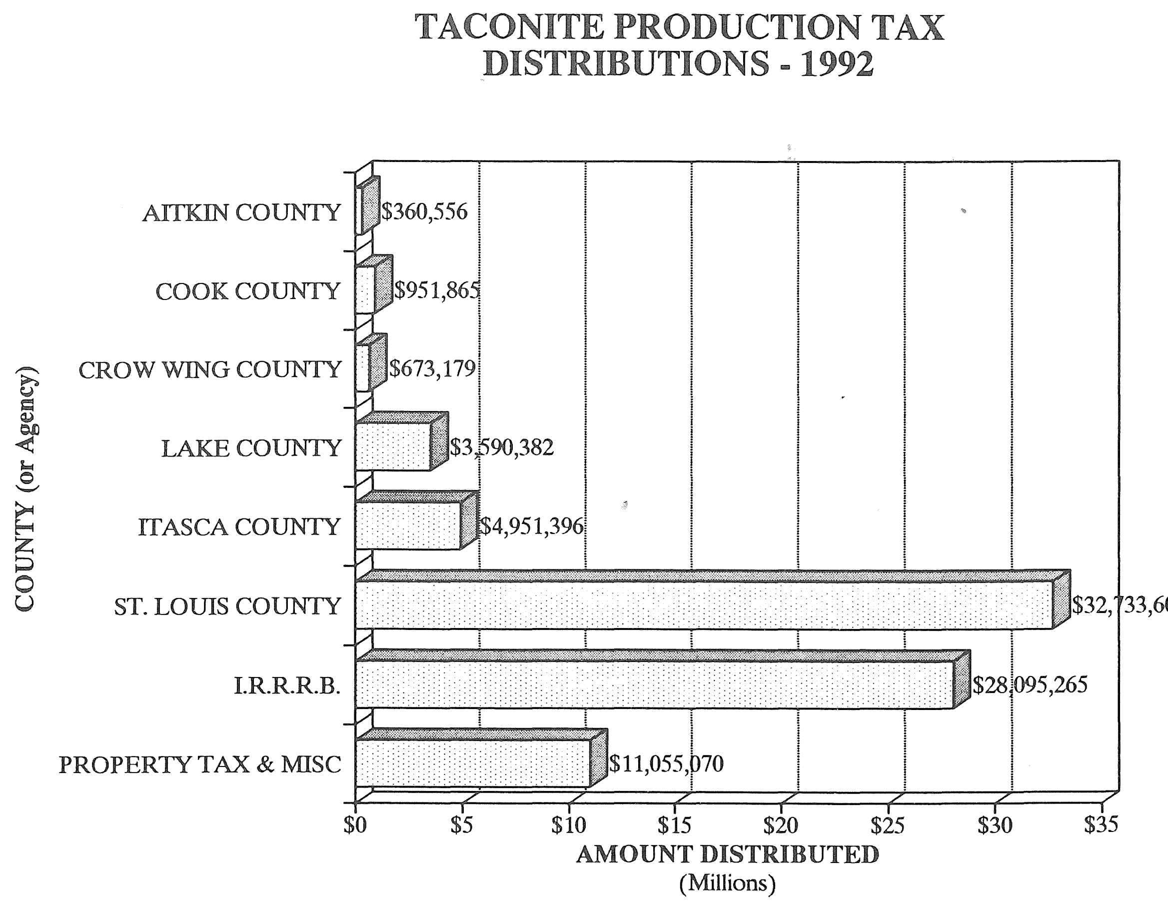
ESTIMATED FOR PRODUCTION YEAR 1992

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	1,000,000	1,790,000	$2.054	$ 3,680,000
Eveleth	3,500,000	3,764,000	2.054	7,730,000
Hibbing	7,500,000	7,884,000	2.054	16,190,000
Inland	2,400,000	2,334,000	2.054	4,790,000
LTV Steel	7,000,000	7,229,000	2.054	14,850,000
National	4,100,000	4,587,000	2.054	9,290,000
USX	12,500,000	12,560,000	2.054	24,920,000
TOTAL:	38,000,000	40,148,000	$2.054	$81,450,000

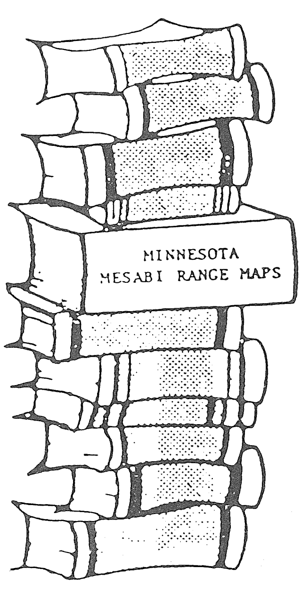
* The taxable tonnage is the average production of the current year and previous two years.

** Production tax revenue after school bond credits have been taken.

Figure 18



MINNESOTA MESABI RANGE MAPS



Available for purchase is the Minnesota Mesabi Range Map Atlas. The atlas consists of 36 U. S. Geological Survey quadrangle maps, updated to 1986.

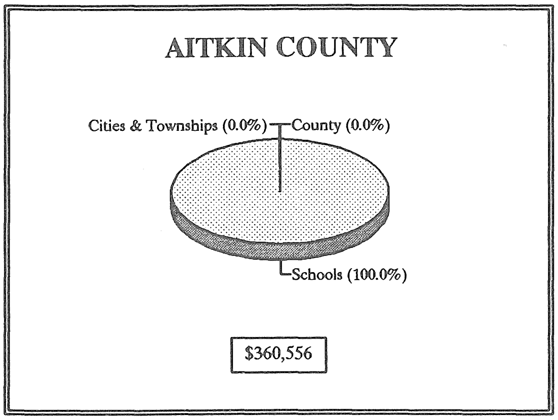
The maps included in the atlas identify the status of the taconite mining industry including pits, stockpiles, tailings ponds and related information. Also noted are highways, railroads, gas and oil pipelines, major power lines, recreation trails and lake accesses, and municipal and school district boundaries.

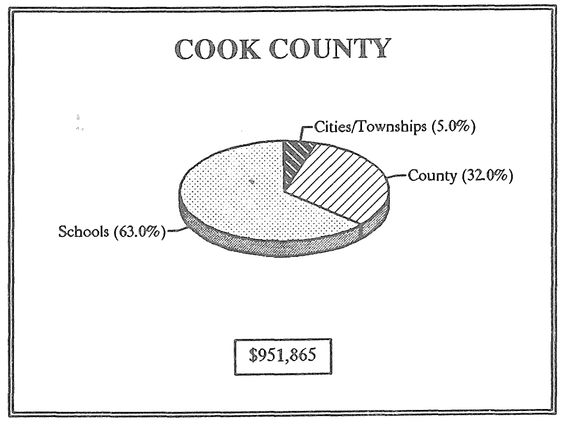
The area covered extends from east of Babbitt across the Mesabi Range through Hoyt Lakes, Aurora, Eveleth, Virginia, Hibbing, and Grand Rapids to Deer River.

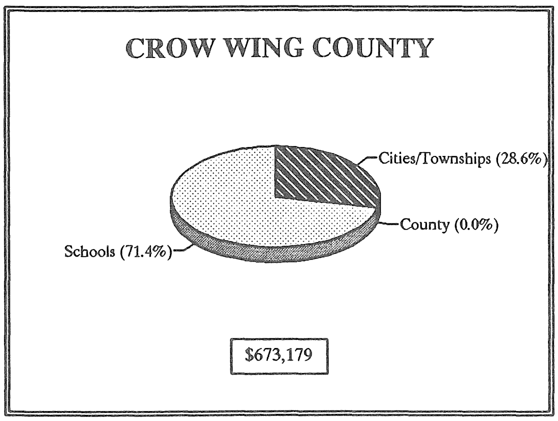
The map atlas is $159.75, including sales tax. Individual maps may be purchased for $3.20, including sales tax. An additional charge for shipping and handling will apply to mail orders. The maps and atlases are available from the Mesabi Map Project, Minerals Tax Office, P. O. Box 481, Eveleth, MN 55734-0481.

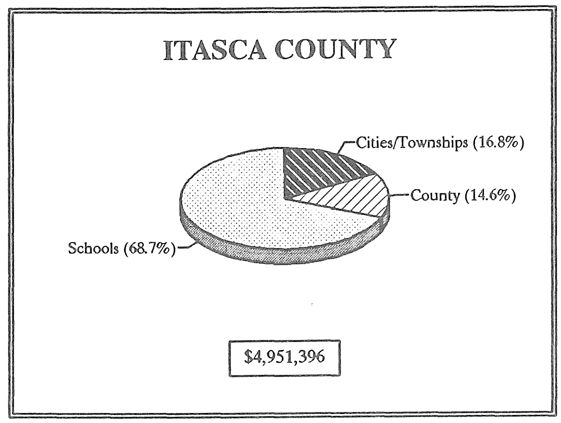
Figure 19

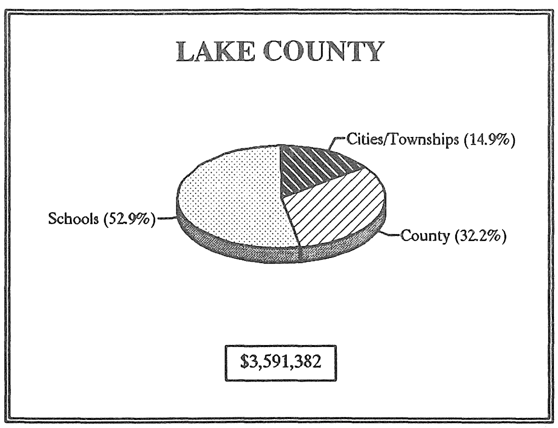
TACONITE PRODUCTION TAX AID RECIPIENTS BY CATEGORY - 1992

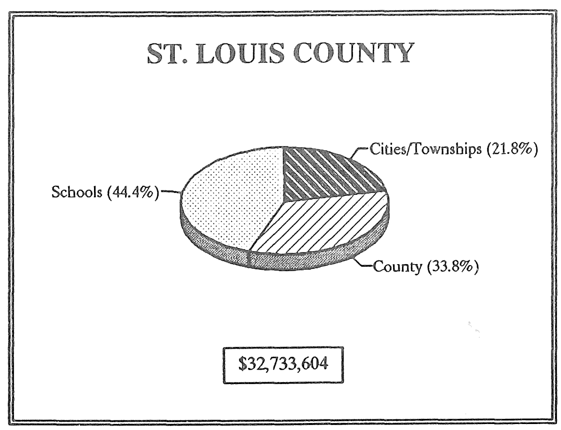


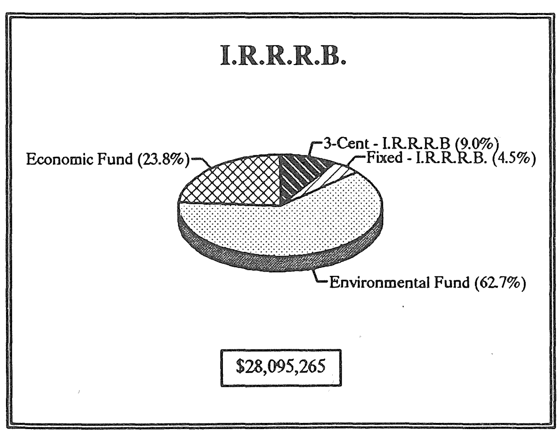












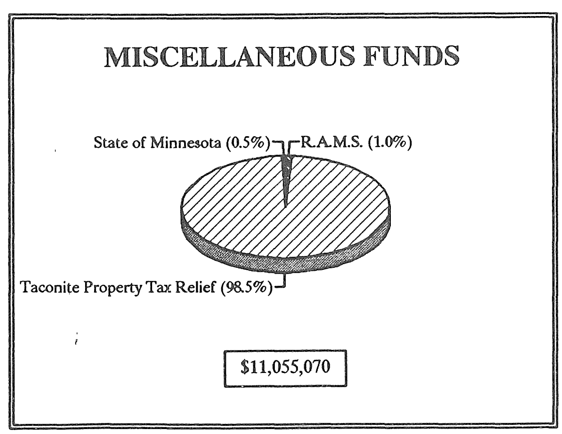
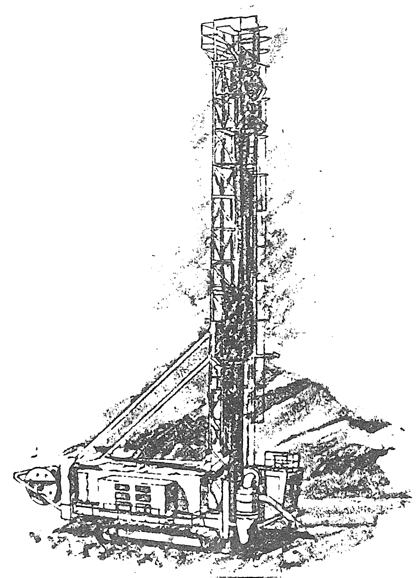


Figure 20

TACONITE PRODUCED AND PRODUCTION TAX COLLECTED



Year	Production Tons (000)	Production Tax Collected (000)		Collection Rate per Production Ton	Taxable Tons* (000)	Tax Rate per Taxable Ton
1955	1,341	$ 78		$ .058		
1956	5,069	297		.059		
1957	6,812	397		.058		
1958	8,574	500		.058		
1959	8,414	528		.063		
1960	13,390	735		.055		
1961	13,187	766		.058		
1962	14,526	842		.058		
1963	16,701	972		.058		
1964	18,505	1,075		.058		
1965	19,004	1,104		.058		
1966	21,677	1,257		.058		
1967	24,311	1,427		.059		
1968	30,269	1,782		.059		
1969	33,410	3,778		.113		
1970	35,348	4,253		.120		
1971	33,778	5,539		.164		
1972	34,544	7,002		.203		
1973	41,829	10,159		.243		
1974	41,053	11,952		.291		
1975	40,809	30,347		.744		
1976	40,575	30,857		.760		
1977	26,372	48,891		1.854	37,759	$1.295*
1978	49,545	69,394		1.401	49,614	1.399*
1979	55,333	88,485		1.599	55,373	1.598*
1980	43,060	87,179		2.025	50,296	1.733*
1981	49,369	99,018		2.006	51,799	1.916*
1982	23,445	80,305		3.425	38,624	2.078*
1983	25,173	67,341		2.675	33,302	2.047*
1984	35,689	64,514		1.876	35,689	2.107
1985	33,265	65,092		1.957	34,477	2.048
1986	25,451	48,658		1.912	31,468	1.900
1987	32,043	51,184		1.597	29,039	1.900
1988	39,485	57,402		1.454	32,326	1.900
1989	39,375	72,149		1.832	36,968	1.975
1990	42,522	78,930	9.4	1.856	40,461	1.975
1991	39,922	82,411	4.4	2.064	40,606	2.054
1992 Est.	38,000	81,450		2.143	40,148	2.054

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

Figure 21

NORTHEAST MINNESOTA ECONOMIC PROTECTION TRUST FUND AND ENVIRONMENTAL PROTECTION FUND

Period Ending	Economic Fund Balance	Environmental Protection Fund Balance
December 31, 1978	$ 3,022,456	
December 31, 1979	8,952,161	
December 31, 1980	18,948,356	
December 31, 1981	30,944,655	
December 31, 1982	36,302,700	
December 31, 1983	28,487,283	
June 30, 1984	27,019,423	
September 30, 1985	28,859,669	
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,583,918

Economic Fund Major Withdrawals

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

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

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

The Taconite Area Environmental Protection Fund (M.S. 298.223) and the Northeast Minnesota Economic Protection Trust Fund (M.S. 298.291 through 298.294) were established by the 1977 legislature. These two funds receive the remainder of the production tax revenues after all distributions provided under M.S. 298.28 and school bond payments are completed. A special allocation of 1.5-cents per ton for the economic fund is provided for in M.S. 298.28. The remainder is split with one-third going to the economic fund and two-thirds to the environmental protection fund.

The Taconite Environmental Protection Fund was "created for the purpose of reclaiming, restoring, and enhancing those areas of northeast Minnesota that are adversely affected by environmentally damaging operations involved in mining and producing taconite and iron ore concentrate." The scope of activities includes local economic development projects. The fund is administered by the Commissioner of the I.R.R.R.B. Projects must be approved by the I.R.R.R.B., the Legislative Advisory Commission, and the Governor.

The Northeast Minnesota Economic Protection Trust Fund is somewhat different in that only interest and dividends earned by the trust fund may be expended before January 1, 2002. Approval for expenditures from earnings is similar to the environmental fund. Expenditures from the principle of the trust fund may be made prior to 2002 only with authorization of the full legislature. This has been done on several occasions, as shown in Figure 21.

OCCUPATION TAX

The occupation tax is paid in lieu of the corporate franchise (income) tax, thus exempting mining companies from corporate income tax. Minnesota's occupation tax changed significantly for ores mined after December 31, 1989. Presented is a short history of the occupation tax, a review of past changes to the occupation tax, and a summary of the current tax.

A SHORT HISTORY

The Iron Ore Occupation Tax was first adopted in 1921, well before the Minnesota and Franchise Tax of 1933. The need for this special form of tax arose from the very nature of the mining industry in Minnesota.

Most of Minnesota's iron ore and taconite is produced for consumption outside of the state, traditionally in the steel mills of the Lake Erie region. In addition, a large number of Minnesota iron ore producers were--and still are--owned by the same steel producers consuming the ore or pellets. Generally, Minnesota's ore producing operations represent a relatively small portion of the entire structure of these large corporations.

Because of the captive nature of this industry and out-of-state consumption, determining a Minnesota income for iron ore products was virtually impossible. So the occupation tax became a tax based on the value of the ore at the mine rather than a tax on profits.

No recognized published market price existed for ore at the mouth of a Minnesota mine, however. So, to arrive at the taxable ore value, the starting point for the calculation was the location of the first quoted market value of the ore. This value is known as the Lake Erie Value or the ore price at a Lake Erie port.

Costs incurred along the way from the mouth of a Minnesota mine to a Lake Erie port were then subtracted from the established Lake Erie Value. These costs, or nonstatutory deductions administratively allowed, included expense for beneficiation (processing the ore), loading, transportation, marketing, ore analysis and marine insurance. This calculation resulted in the value of the ore at the mouth of a Minnesota mine.

Additional costs were deducted from the above value. Specifically mentioned by law, these statutory deductions were mining costs, amortized development, a portion of ad valorem tax or, for taconite producers, the production tax, depreciation on plant and equipment and other miscellaneous expense. Not allowed were royalty taxes, depletion allowances, out-of-state general and administrative expense or loss carryovers. Subtraction of these costs resulted in a taxable value of the ore.

The occupation tax rate varied over the years from its original rate of six percent in 1921. In 1989, the last year of the traditional occupation tax, the rate was 14 percent for both natural ore and taconite. Actual tax paid was dramatically reduced by substantial credits against the occupation tax.

Foremost of available credits was the credit for high labor cost ores. Taconite producers reduced their net effective occupation tax rate in 1989 from 14 percent down to 5.75 percent through use of the labor credit. At times, all iron ore producers were eligible for credits for investment in pollution control equipment and costs incurred for exploration and research into Minnesota ores. Natural ore producers were also allowed a credit for costs of mining exceeding the value of the ore, or the loss mine credit, while small independent iron ore producers were also allowed a credit for selling ore below the quoted Lake Erie Value (the discount credit).

A REVIEW OF PAST CHANGES

Over the years, the occupation tax was often the object of controversy. Since the 1920's, mining interests protested high occupation tax rates and the nonallowability of certain expense such as royalty taxes, portions of the ad valorem tax or, for taconite producers, the production tax, some general and administrative expense and depletion allowances. Major complaints involved perceived differences in tax treatment of mining companies and non-mining Minnesota corporations.

Changes or modifications to the occupation tax occurred as the result of court action, administrative action or the legislative process. Examples include:

1) Court Action - Various court decisions set guidelines for deductibility of expense accordingly as all "reasonable and necessary costs and charges which must be paid to take ore from its bed and bring it to the surface." State v. Armson, 166 Minn. 230, 207 N.W. 727. Some costs allowed as a result of court decisions were property taxes on beneficiation plants, insurance expense, cargo analysis, certain office expense incurred away from the mine's location and expenses for engineers, superintendents, and other administrative personnel. Disallowed were advance royalty payments and legal services.

2) Administrative Changes - Costs known as non-statutory deductions were allowed administratively. Included were costs for beneficiation, stockpile loading, transportation, marketing, or analysis and marine insurance. In 1984, the Department of Revenue also allowed additional general and administrative expense previously disallowed.

   Beginning with the 1987 tax year, the starting point of the occupation tax calculation, or the Lake Erie Value, was changed to the Mine Value. The reasons for this change were a lack of published lake and rail transportation rates and a disparity between the only available published prices at that time and the actual transportation rates. Because the starting point for determining a taxable value was now at the mine instead of at a Lake Erie port, only costs necessary to convert raw iron ore or taconite concentrate to marketable quality were allowed. Thus, transportation (except for transportation from mine to plant), stockpiling, marketing and marine insurance expenses were no longer allowed after December 31, 1986.

3) Legislative Changes

   The Taconite Amendment - Minnesota Statutes, Section 298.40, or the Taconite Amendment, was approved by the voters at the general election held in November of 1964. This represented an effort to assure the mining industry that the combined occupation, royalty and excise taxes paid by ore producers would not exceed the corporate income tax paid by non-mining Minnesota corporations.

   At this time, there were only two taconite operations--Reserve and Erie--in Minnesota. The Taconite Amendment guaranteed lower occupation taxes to the mining industry in order to encourage new investment in Minnesota ores. Six new taconite facilities--Butler Taconite Company, National Steel Pellet Company, Hibbing Taconite Company, Inland Steel Mining Company, Minntac and Eveleth Mines--were constructed. The Taconite Amendment expired on December 31, 1989.

A SUMMARY OF THE CURRENT TAX

Changes to the Minnesota tax system which occurred in the late 1980's also affected the occupation tax. As of January 1, 1990, the occupation tax on taconite is computed according to most of the same provisions as the corporate franchise, or income, tax. Generally, occupation tax deductions follow those allowed for the Minnesota corporate franchise tax with two major exceptions:

1) The tax is non-unitary because it applies only to the Minnesota mine and plant. All shipments to out-of-state steel plants are considered non-Minnesota sales for purposes of apportionment. This means that only 30 percent of the mining income is subject to the 9.8 percent franchise tax.

2) Mining companies are allowed percentage depletion. This deduction is a tax preference item for the alternative minimum tax calculation.

Mining companies are now subject to the alternative minimum tax (AMT). Generally, the AMT is calculated under federal rules but there are some differences. First, the mine value is used to determine gross income in the same manner as that for occupation tax. Secondly, the deductions allowed against gross income are somewhat more restrictive. And, the deductions for depreciation and depletion are limited to the amounts allowed under federal AMT law.

The occupation tax applies to both ferrous and non-ferrous minerals including not only taconite and iron ore, but also other minerals such as gold, silver, copper, nickel and titanium.

For mining companies, the gross income for a federal based AMT would be determined in the same manner as that for the regular occupation tax. The deductions allowed against gross income would be more restrictive. The deductions for depreciation and depletion would be limited to the amounts allowed under the federal AMT laws. This tax will also apply to the mining of other minerals, such as gold, silver, copper or nickel.

Transition Rules

Recognizing differences between the occupation tax prior to January 1, 1990 and the corporate franchise tax, the legislature provided rules for transition. These involve the treatment of depreciation, basis of mining assets, and net operating losses.

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

Basis for Determining Gain or Loss from the Sale of Mining Assets - This basis shall be the same as the adjusted basis used to calculate the hypothetical corporate income tax for M.S. 298.40 purposes.

Net Operating Loss - Net operating losses (NOL's) determined under the hypothetical corporate income tax limitation calculation (M.S. Sections 298.40 and 298.402) prior to 1990 may be carried forward for 15 years. Included are NOL's beginning after December 31, 1986. Amounts carried forward prior to December 31, 1989 are unapportioned.

Mine Value after December 31, 1990

There were two changes to the mine value starting with the 1991 tax year. These changes were the result of meetings between the Department of Revenue and representatives of the taconite industry to develop an ongoing procedure for the annual mine value determination. Beginning with the 1991 production year, the occupation tax mine value is determined by using the following two components:

1) Seventy-five percent of the mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year, and

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

This process develops a mine value for acid pellets only. Fluxed pellets have a higher value, explained below.

Additionally, all parties agreed on two major points. First, the mine value for partially fluxed pellets would remain the published differential between partially fluxed and acid pellets. Second, the mine value for pellet chips will be 75 percent of the pellet value. Finally, there was mutual agreement to an annual review of the value of both flux pellets and pellet chips.

Fluxed and Partially Fluxed Pellets

Fluxed pellets contain an additive, usually limestone. Blast furnace operations are enhanced through the use of fluxed pellets due to increased efficiency of operations and decreased use of limestone.

There are two types of fluxed pellets and their valuation is based upon flux additive content. The $0.0155 per Fe unit differential between flux and acid pellets is based upon flux pellets containing less than two percent flux additive. These are partially flux pellets.

Some taconite companies are producing pellets with four-to-five percent flux additive in finished pellets. These are flux pellets. Fluxed pellets have a greater value at the blast furnace than the partially fluxed pellets. Also, costs of producing flux pellets are greater than the cost of producing partially fluxed pellets.

Prior to 1991, the higher value of the flux pellets was not recognized in the occupation tax mine value. Increased production costs, however, were allowable deductions in determining the taxable value of production for the occupation tax. For these reasons, the Department of Revenue found it necessary to develop a more accurate mine value for flux pellets.

Pellets with up to 1.99 percent flux in the finished pellet continue to use the published differential between partially fluxed and acid pellets, currently $0.0155 per Fe unit. The mine value of pellets containing more than 1.99 percent flux is the acid pellet value plus $0.0155 per Fe unit per each one percent of flux in the finished product.

OCCUPATION TAX DISTRIBUTION

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

Figure 22

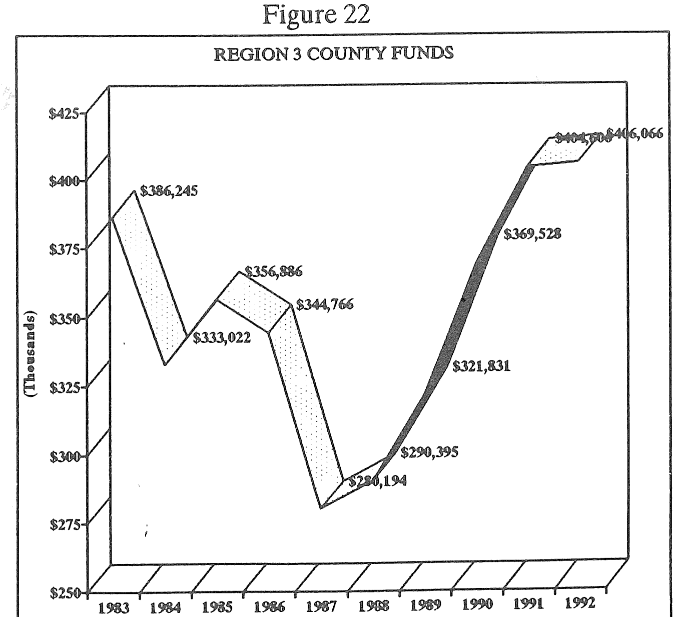


Figure 23

OCCUPATION TAX MINE VALUE AND OCCUPATION TAX PAID - 1991

TACONITE COMPANY	1991 MINE VALUE	1991 OCCUPATION TAX PAID*
Cyprus Northshore Mining Corp.	$ 53,977,828	$ -0-
Eveleth Mines	96,508,350	-0-
Hibbing Taconite Co.	223,154,609	599,123
Inland Steel Mining Co.	72,389,827	-0-
LTV Steel Mining Co.	187,656,429	-0-
National Steel Pellet Co.	135,437,645	-0-
USX Corporation	398,833,731	1,408,783
TOTALS:	$1,168,058,419	$2,007,906
NATURAL ORE COMPANY		
LTV Steel Company	$ 8,047,966	$ 32,055

Figure 24

RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGES - 1991*

Acid Pellets

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons	Less: Flux	Production Tax Production Tons
Hibbing	8,113,994	1.20%	8,016,302	-0-	8,016,302
Inland	163,338	2.00%	160,071	-0-	160,071
LTV Steel	6,887,320	0.00%	6,887,320	-0-	6,887,320
National	4,894,868	0.90%	4,850,261	-0-	4,850,261
USX Corp.	182,463	0.97%	180,735	-0-	180,735
Subtotal:	20,241,983		20,094,689		20,094,689

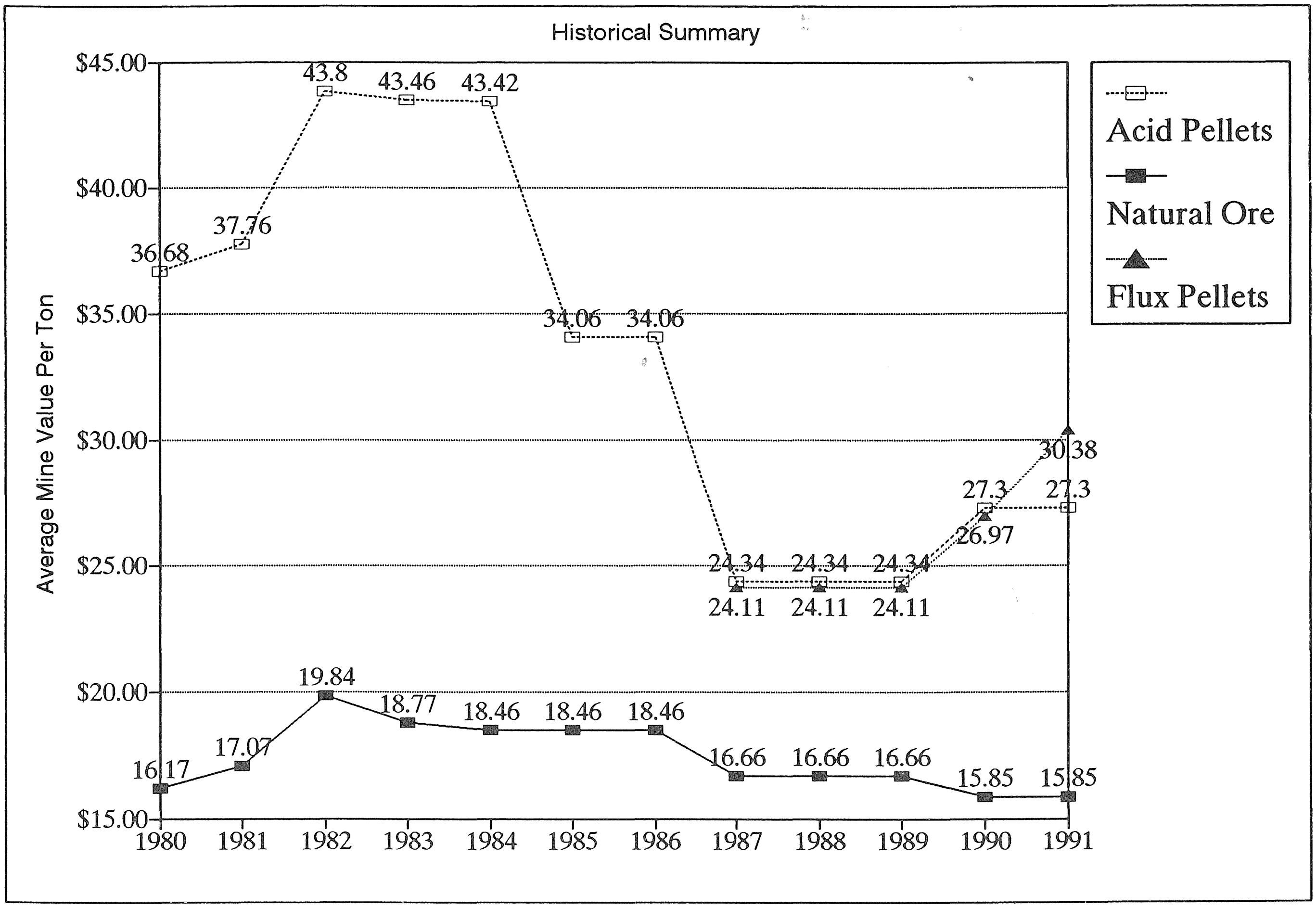
Flux Pellets

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons	Less: Flux	Production Tax Production Tons
Cyprus	2,017,038	0.56%	2,005,755	(19,532)	1,986,223
Eveleth	3,443,121	1.43%	3,393,411	(19,343)	3,374,068
Inland	2,360,107	2.00%	2,312,907	(135,837)	2,177,070
USX Corp.	13,111,964	2.28%	12,812,404	(522,504)	12,289,900
Subtotal:	20,932,230		20,524,477	(697,216)	19,827,261
TOTAL:	41,174,213		40,619,166	(697,216)	39,921,950

* The taconite production tax and the occupation tax use different production tonnages. Figure 24 is a reconciliation to show the total production for each company including flux and moisture and excluding flux and moisture. This table should eliminate any errors or misunderstanding concerning tonnage.

Figure 25

INDUSTRY AVERAGE MINE VALUE PER TON
(Acid Pellets, Flux Pellets and Natural Ore)



The value per ton shown in the chart is calculated as follows:

EXAMPLE BASED ON ACID PELLET VALUE FOR 1980

Value per Fe Unit	x	Average Fe Content	=	Lake Erie Value	-	Transportation	=	Mine Value
0.7289	x	65%	=	$47.38	-	$10.70	=	$36.68

The Department of Revenue annually determines the value per iron (Fe) unit and provides these to the mining industry in the Occupation Tax Directive. An industry-wide average value per ton has been developed using:

-- 65% Fe for acid pellets,
-- 62% Fe for flux pellets (starting in 1987) and,
-- 51.5% Fe for natural ore.

The actual mine value per ton of taconite produced will vary by company due to the iron content and flux content in their finished pellet. Beginning with 1991, the flux pellet average value per ton will be the actual average, rather than the arbitrary developed average explained above, due to the new valuation procedures explained on page 26.

Figure 26

OCCUPATION TAX COLLECTED ON IRON ORE AND TACONITE PRODUCTION

1955 - 1991

	Iron Ore		Taconite		Totals	
Year	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)
1955	66,545	$31,501	1,341	$ -0-	67,886	$31,501
1960	44,042	20,655	13,390	638	57,432	21,293
1961	30,458	13,010	13,187	898	43,645	13,908
1963	28,682	10,886	16,701	1,426	45,383	12,312
1965	33,462	15,646	19,004	1,740	52,466	17,386
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808*	45,281	14,808
1981	1,664	1,232	49,369	11,372*	51,033	12,604
1982	789	719	23,445	-0-*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109	5,356	33,512	6,145
1988	743	294	39,772	2,993	40,515	3,287
1989	603	160	39,882	350	40,485	510
1990	417	11	43,176	2,057	43,593	2,068
1991	406	32	39,922**	2,008	40,328	2,040
1992 Est.	200	20	38,000	2,500	38,200	2,520

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

**Refer to Figure 24 - Reconciliation of Occupation Tax and Production Tax Tonnages - 1991.

Figure 27

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS

Year	Tons Produced (000 Tons)	(1) Average Value	(2) Trans-portation	(3) Cost of Benefi-ciation	(4) Cost of Mining	Development	(5) Taconite Production Tax Paid	Sales & Use Tax Paid	Admin. & Misc. Expense	Royalty	Taxable Value of Production	Occupation Tax Paid
1972	34,554	17.437	4.472	7.267	2.073	0.665	0.203	0.133	0.398	0.657	1.569	0.106
1973	41,829	18.034	4.771	6.851	1.978	0.600	0.243	0.133	0.360	0.679	2.419	0.163
1974	41,053	22.122	5.845	8.058	2.162	0.737	0.250	0.154	0.450	0.818	3.648	0.246
1975	40,809	28.846	6.887	9.499	2.799	0.891	0.250	0.177	0.621	0.976	6.746	0.464
1976	40,575	32.200	7.609	11.334	3.254	1.219	0.250	0.183	0.778	1.077	6.496	0.450
1977	26,372	34.827	8.127	17.376	4.816	1.415	0.366	0.280	1.368	1.110	(0.031)	0.121
1978	49,545	37.080	8.766	14.725	4.096	1.497	0.254	0.173	1.076	1.259	5.234	0.388
1979	55,333	41.306	9.929	16.094	4.260	1.760	0.253	0.227	1.297	1.320	6.166	0.435
1980	43,060	46.365	10.679	20.867	5.028	2.006	0.298	0.214	1.519	1.444	4.310	0.321
1981	49,369	51.107	13.307	20.986	5.515	2.155	0.266	0.187	2.150	1.705	4.836	0.257
1982	23,445	53.946	12.658	31.007	6.228	2.213	0.419	0.274	4.441	2.078	(5.372)	0.140
1983	25,173	56.178	13.034	26.624	4.952	1.485	0.365	0.186	4.819	1.832	2.881	0.453
1984	35,689	56.480	13.077	19.852	4.227	1.997	0.270	0.204	4.534	1.691	10.628	0.838
1985	33,265	47.102	13.064	19.289	4.235	1.568	0.285	0.194	4.399	1.654	2.414	0.297
1986	24,017	47.143	13.024	18.474	4.317	0.902	0.321	0.222	4.479	1.498	3.690	0.259
1987	32,109	26.766	0.053	15.595	3.278	0.556	1.684	0.179	3.384	1.281	0.756	0.167
1988	39,786	24.325		14.901	3.559	0.864	1.524	0.192	2.718	1.180	(0.613)	0.075
1989	39,882	24.424		15.895	4.163	1.083	1.830	0.233	3.024	1.161	(2.965)	0.009
1990	43,176	27.444		16.286	4.513	1.076	1.928	0.256	3.013	1.129	(0.757)	0.048
1991	40,619	28.754		16.837	4.667	1.358	2.102	0.272	3.530	1.156	(1.168)	0.049

(1) This average value will not match the values on Figure 25 because this is one average of all taconite produced (acid, flux, chips, concentrate).

(2) Transportation consists of the rail and lake transportation allowance, marketing and marine insurance from the occupation tax directives, through April 30, 1987.

(3) Cost of beneficiation includes beneficiation labor, supplies, depreciation, interest, and miscellaneous (from Figure 28).

(4) Cost of mining is the total mining labor, mining supplies and depreciation (from Figure 28).

(5) For additional information, refer to Appendix - Production Tax Deduction on Occupation Tax Report (page 49).

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

Figure 28

TACONITE INDUSTRY OCCUPATION TAX REPORT
AVERAGE COST PER TON

BENEFICIATION

	Tons Produced (000)	Beneficiation Labor (000)	Per Ton	Beneficiation Supplies (000)	Per Ton	Beneficiation Depreciation & Interest (000)	Per Ton	Beneficiation/ Miscellaneous Per Ton	Total Beneficiation Per Ton
1981	49,369	$232,195	$4.703	$583,411	$11.817	$197,150	$3.993	$.473	$20.986
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	4.854	.088	19.852
1985	33,265	106,804	3.211	372,156	11.188	156,363	4.701	.189	19.289
1986*	24,017	64,990	2.706	259,928	10.823	116,637	4.857	.088	18.474
1987	32,109	70,993	2.211	314,491	9.795	112,667	3.509	.080	15.595
1988	39,786	90,047	2.263	389,070	9.779	109,732	2.758	.101	14.901
1989	39,882	95,238	2.388	425,570	10.671	109,483	2.746	.090	15.895
1990*	43,176	116,305	2.694	471,931	10.930	110,641	2.562	.100	16.286
1991	40,619	120,285	2.961	445,389	10.965	103,431	2.547	.364	16.837

MINING

	Tons Produced (000)	Mining Labor (000)	Per Ton	Mining Supplies (000)	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	3.490	.737	4.227
1985	33,265	57,540	1.730	54,739	1.646	3.376	.859	4.235
1986*	24,017	39,162	1.631	43,290	1.802	3.433	.884	4.317
1987	32,109	40,239	1.253	47,179	1.469	2.722	.556	3.278
1988	39,786	55,238	1.388	67,491	1.696	3.084	.474	3.559
1989	39,882	61,850	1.551	82,090	2.058	3.609	.554	4.163
1990*	43,176	70,770	1.639	105,330	2.440	4.079	.434	4.513
1991	40,619	81,313	2.002	93,208	2.295	4.297	.370	4.667

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

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

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

The income tax withholding is a seven percent tax assessed on exploration and/or mining royalty income. This section will define royalty, identify who must pay the tax, and outline the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost, by company, per ton of pellets produced (Figure 30) and the industry-wide cumulative total royalty paid and income tax withholding (Figure 29).

Royalty is defined as any amount (in money or value of property) received by any person having any right, title or interest in or to any tract of land in this state for permission to explore, mine, take out or remove ore therefrom. The ores subject to the withholding are iron ore, taconite, and other minerals (copper, nickel, gold, etc.) subject to the Net Proceeds Tax. Royalties can include rents, bonus payments, and non-recoverable lease payments.

ROYALTY PAYERS

All payers of mining and/or exploration royalty are required to withhold and remit an income tax of seven percent on royalty paid for use of Minnesota lands effective January 1, 1990 (M.S. 290.923).

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

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

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

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

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

1. The trust becomes responsible for withholding from the beneficiaries.
2. The trust must inform the beneficiaries of the requirements to withhold tax and provide them with a W-4.
3. The trust must provide each beneficiary with the 1099 MISC by January 31st of the following year.
4. The trust must prepare and submit the required withholding returns--MW-1, MW-3, and MW-5 to the State of Minnesota.

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

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

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

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

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

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

ROYALTY RECIPIENTS

Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year are exempt from the withholding tax. Non-resident individuals will not incur a Minnesota income tax liability for 1992 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $5,900. A W-4 exemption certificate must be filed with the royalty payer so that Minnesota income tax will not be withheld from the royalties received.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return, M-1NR, to obtain a refund. Royalty recipients are eligible to use percentage depletion on their individual income tax returns.

For information previously provided about income tax withholding on mining and exploration royalty, refer to the 1989 through 1992 Minerals Tax News or the 1989 through 1991 Minnesota Mining Tax Guide.

QUESTIONS/FORMS

Inquiries should be directed to the Minerals Tax Office.

Forms can be obtained by contacting:

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

A Minnesota Income Tax Withholding Instruction Booklet is available for assistance in complying with the withholding laws. This booklet is designed for withholding on Minnesota wages, but the general filing requirements also pertain to royalty withholding.

ROYALTY TABLES (Page 34)

The royalty cost per ton beginning from 1970 to date (Figure 30) is located on page 34.

Figure 29
ROYALTY PAID AND INCOME TAX WITHHELD
(Taconite, Natural Ore and Others)

	Royalty Paid	Income Tax Withheld
1990	$55,336,160	$545,746
1991	$56,407,317	$632,598

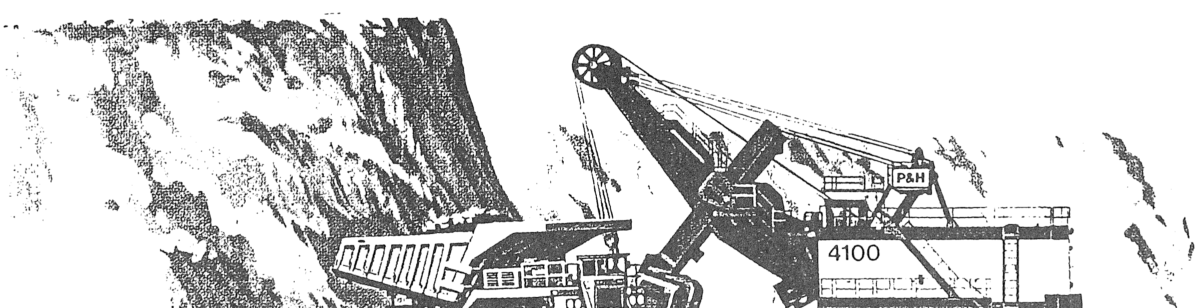


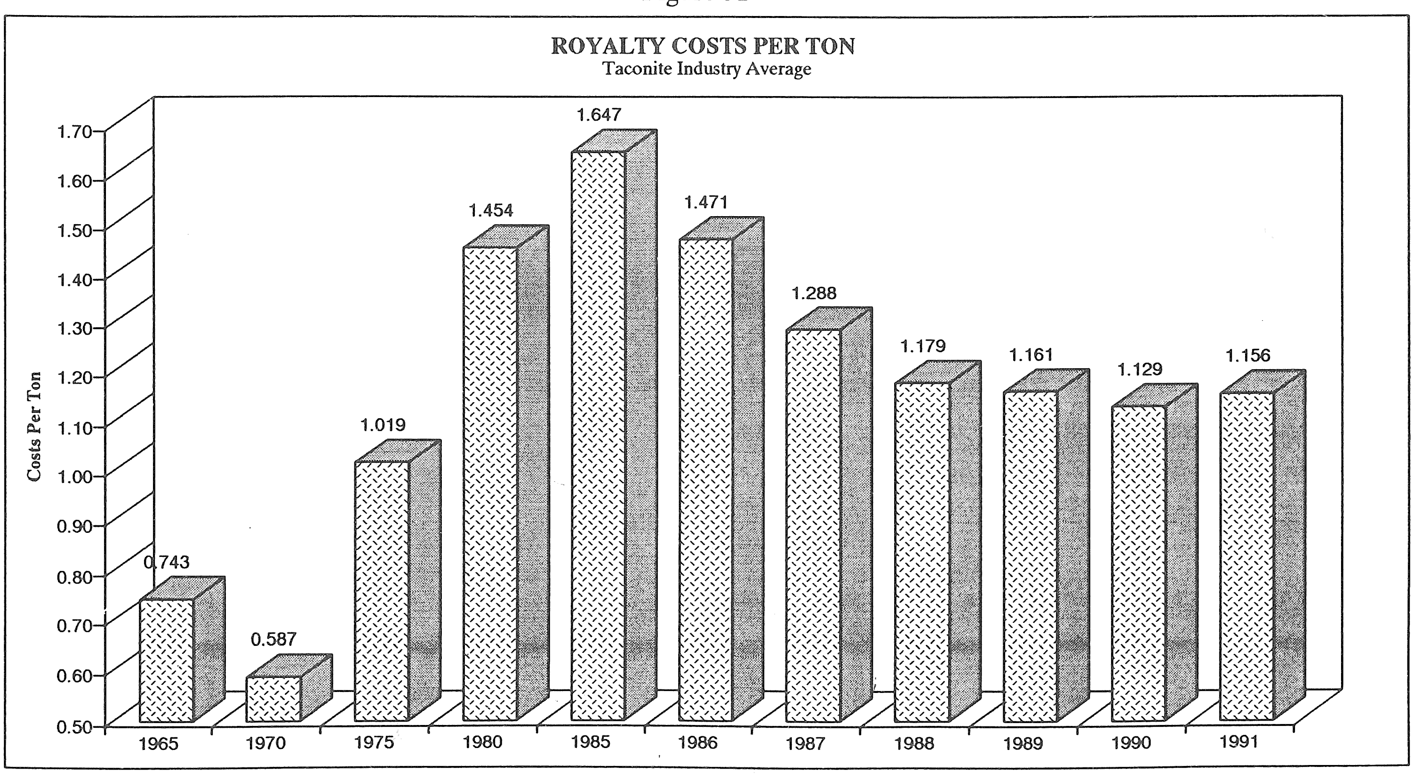
Figure 30
AVERAGE ROYALTY COST PER TON OF PELLETS PRODUCED

	1965	1970	1975	1980	1985	1987	1989	1990	1991
Industry Production (millions of tons):	19.0	35.3	40.8	43.0	33.3	32.1	39.9	43.2	40.6
Butler	*	0.714	1.139	1.815	1.954	Closed	Closed	Closed	Closed
Reserve/Cyprus**	1.126	1.120	1.919	2.820	3.087	Closed	**	1.350	1.156
Erie (LTV)	0.266	0.314	0.954	1.749	2.289	1.897	1.086	1.288	1.115
Eveleth	*	0.949	2.218	3.578	3.333	2.472	2.417	2.498	2.502
Hibbing	*	*	*	0.875	1.209	0.928	1.086	0.988	1.515
Inland	*	*	*	1.212	1.801	1.604	1.389	1.396	1.470
National	*	0.549	0.974	1.525	2.001	1.648	2.239	2.041	1.902
USX-Minntac	*	0.000	0.171	0.288	0.334	0.268	0.287	0.239	0.266
Industry Average:									
Weighted:	0.743	0.587	1.019	1.454	1.647	1.288	1.161	1.129	1.156
Arithmetic:	0.763	0.729	1.229	1.732	2.001	1.469	1.442	1.400	1.418

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

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

Figure 31



SALES AND USE TAX

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

The current sales tax rate is 6.5 percent, which includes a 0.5 percent local option sales tax. Minnesota's sales and use tax, first adopted in 1967, is now the second largest source of state taxes, yielding $1.96 billion in fiscal year 1991.

Sales and Use taxes are essentially identical. The sales tax is assessed by the vendor at the time of the sale of tangible personal property; the use tax paid by the purchaser (user) is imposed on the use, storage, or consumption of tangible personal property for which no sales tax was assessed (paid) at the time of purchase.

INDUSTRIAL PRODUCTION EXEMPTION

The industrial production exemption, M.S. 297A.25, Subd. 9, allows industry to exempt items from sales and use tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item so used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the chemical classification.

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

In 1974, the Minnesota Legislature amended the industrial production exemption M.S. 297A.25, Subd. 9, to cover accessory tools. The accessory tool exemption is available to all manufacturing-type businesses. The legislature, in defining what qualifies as an accessory tool, set three standards that must be met: 1) an item must be separate and detachable, 2) it must have a direct effect on the product, and 3) it must have a useful life of less than twelve months. In mining, shovel dipper teeth, shovel bucket lip and lower wing shrouds, cat and grader blade cutting edges, drill bits, and reamers qualify for this exemption.

CAPITAL EQUIPMENT REFUND

Effective July 1, 1984, the State of Minnesota instituted a two percent refund of sales tax paid on purchases of capital equipment for new or expanding businesses. In the 1989 special legislative session, the legislature extended the refund to the full six percent of sales tax paid on capital equipment. The 1990 legislative session expanded the definition of capital equipment to cover equipment used to extract raw materials, such as drills, shovels, and trucks which previously did not qualify for a refund.

A business filing a claim for refund on capital equipment purchased for a new or expanding business will be allowed to claim the full 6.5 percent of tax paid on purchases made after July 1, 1991. Claims can include only the capital equipment and the materials and supplies necessary to construct or install the machinery or equipment. Electrical wiring, cable trays and hangers used to connect the equipment to the control room or the on/off lockout equipment qualifies as part of the equipment. Pipe, launders and their hangers used to transport the product from one process to another do not qualify for the tax refund.

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

ELECTRONIC FUND TRANSFER

Companies with a sales and use tax liability of $240,000 per fiscal year (July 1 through June 30) are required to remit the tax using electronic fund transfer. The due date for remitting the tax is the 14th of the month following the month of the sale. The return must be filed by the 25th of the month.

If actual amounts are not available by the 14th of the month, an estimate of the net amount to be paid may be remitted by using one of the following options:

- 100% of the previous month's sales and use tax,
- 100% of the tax paid in the same month of the previous year, or
- 95% of the actual amount

For those companies not required to file electronically but electing to do voluntarily, payments and returns are due on the 20th of the month following the filing month.

Figure 32

USE TAX PAID

YEAR	USE TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	REFUND* CLAIMS	NET USE TAX COLLECTED
1983	$ 5,808,237	$2,613,605		$ 3,194,632
1984	7,110,166	4,283,181		2,826,985
1985	6,476,570	4,216,360		2,260,210
1986	4,890,472	2,399,142		2,491,330
1987	5,286,947	1,827,482		3,459,465
1988	8,351,535	1,149,975		7,201,560
1989	11,112,722	129,744	$ 83,478	10,899,500
1990	13,127,042	-0-	104,173	13,022,869
1991	11,860,378	-0-	475,098	11,385,280
1992 Est.	12,000,000	-0-	600,000	11,400,000

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

GRAVEL TAX

This tax is actually a production tax on the removal of aggregate material. It is found in M.S. 298.75. This is not a state tax, but a county tax mandated by the state legislature. The tax is currently in effect in 22 counties.

HISTORY

This "gravel tax" originated in a series of special laws between 1961 and 1979 allowing seven counties along the North Dakota border to impose the tax. The purpose of the tax was to provide funds for local roads and bridges used heavily by North Dakota gravel haulers, who paid no Minnesota taxes.

In 1980, ALL counties were given the option of imposing the tax by the legislature. Any revenues were to be dedicated to: 1) county/township road and bridge funds, and 2) reclamation of abandoned pits.

Most counties did not impose the tax. Other changes were made in 1982, 1983, 1984 and 1986. No changes have been made since 1986.

TAX IMPOSITION AND DISTRIBUTION

The tax on "aggregate material" is a tax on gravel, sand, silica sand, building stone, crushed rock, limestone and granite (but not dimension stone or dimension granite).

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

Current law requires the county to distribute this tax:

60% - County Road and Bridge Fund
30% - Township Road and Bridge Fund
10% - Reserve Fund for Pit Restoration

Although this is a county tax, the Minerals Tax Office does receive calls for information or assistance from both counties and aggregate producers.

New or expanding gravel companies are eligible for the sales and use tax capital equipment refund (page 35).

Figure 33

GRAVEL TAX COLLECTED

1980 - $ 153,789	1984 - $1,731,600	1988 - $1,830,535
1981 - $ 104,693	1985 - $1,783,940	1989 - $2,003,391
1982 - $ 236,039	1986 - $1,938,702	1990 - $1,939,276
1983 - $1,503,599	1987 - $2,115,649	1991 - $1,783,301

AD VALOREM TAX ON TACONITE RAILROADS

Prior to 1989, every taconite railroad company operating in the state had to annually pay into the state treasury a sum equal to 3.75 percent of the gross earnings derived from operations within the state. The gross earnings were calculated by a formula applying published tariffs from common carrier railroads.

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

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

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

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

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

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

A taconite railroad will then receive tax bills from the county similar to any other taxpayer showing the equalized market value in each taxing district and the amount of taxes due. The first half payment of taxes assessed for the 1991 assessment were due May 15, 1992 with the second half payment due October 15, 1992.

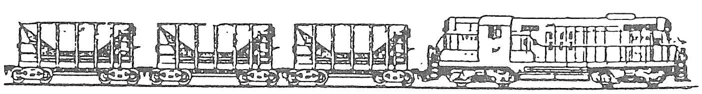


Figure 34
TACONITE RAILROAD AD VALOREM TAX ASSESSED

Year Payable	Year Assessed	St. Louis County	Lake County	Cook County	Total Tax
1990	1989	$105,167*	$156,675*	$5,037	$266,879
1991	1990	$112,800	$145,573	$5,319	$263,692
1992	1991	$ 53,409	$ 80,720	$5,064	$139,193

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

AD VALOREM 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 Office. This is done through the evaluation of exploration drill hole data submitted by the mining companies.

The categories are listed as follows:

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

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

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

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

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

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

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

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

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

For payable 1992, the tax is calculated by multiplying the market value for the parcel of land times the 4.75 percent class rate (4.70 percent for payable 1993) times the local tax rate for that specific tax area. (NOTE: Call your county auditor for more information).

Figure 35
UNMINED TACONITE TAX PAID

County	1985	1986	1987	1988	1989	1990	1991	1992
Itasca	$ 34,485	$ 36,123	-0-	-0-	-0-	-0-	-0-	-0-
St. Louis	286,904	360,546	$384,697	$392,614	$365,244	$355,065	$352,935	$349,551
Totals:	$321,389	$396,669	$384,697	$392,614	$365,244	$355,065	$352,935	$349,551

The twenty percent portion of the Severed Mineral Interest Tax which is allocated to the Indian Affairs Council is reported by the county auditors on the Abstract of Tax Settlement form. This is a special form used for remitting several property related taxes to the state, including the Severed Mineral Interest Tax. Normally, the form is submitted twice each year to correspond with payment of property taxes.

The monies collected in the severed mineral interest account are distributed to the Indian Affairs Council at the end of each month. The tax is collected by the county auditors twice each year (May and October) in the same manner as other property taxes. If the severed mineral interest tax is less than $50, the taxpayer is required to pay in full with the May payment.

A copy of the Abstract of Tax Settlement form is shown as follows:

Figure 36

Minnesota Department of Revenue
Mail Station 3340
Saint Paul, Minnesota 55146-3340
(612) 296-2286

ABSTRACT OF TAX SETTLEMENT

Name of County	Period of Report From ______, 19 __ to ______, 19 __

STATE'S SHARE OF THE FOLLOWING:

Reimbursement of Homestead Benefits . . . . $__________

$5.00 County Conservation Fee (M.S. 40A.152, Subd. 1) . . . . __________

State Deed Fees (M.S. 282.09) . . . . __________

Repurchase Deed Fees (M.S. 282.241-.324) . . . . __________

Severed Mineral Interest . . . . __________

Total . . . . $__________

Acknowledged Correct

____________________________ ____________________________

Signature of County Treasurer Date Signature of County Auditor Date

This form is to be used only for those settlements that are payable to the Commissioner of Revenue. Items payable to the State Treasurer, for example, real estate assurance account, should not be shown or remitted with this report.

Remittance should accompany each settlement and should be made by one warrant equal to the total shown above and payable to the Commissioner of Revenue.

The processing and payment of the Severed Mineral Interest Tax is handled by the Document Processing Division of the Department of Revenue in St. Paul. The Deposit Control Section is responsible for severed minerals tax (612) 296-5960.

The Indian Affairs Council, which administers the twenty percent portion of the tax allocated for the Indian Business Loan Account, may be contacted at (612) 296-3611.

AD VALOREM TAX ON AUXILIARY MINING LANDS FOR TACONITE OPERATIONS

Lands and structures actively used for taconite production are exempt from the ad valorem tax and in lieu of property tax, are subject to the production tax. These actively used lands include the plant site, mining pit, stockpiles, tailings pond, and water reservoirs. Also included are lands stripped and ready for mining, but not lands merely cleared of trees. Exemptions are granted by parcel basis to the nearest five acres. Lands adjacent to these facilities, commonly referred to as auxiliary mining lands, are subject to assessment of ad valorem tax administered by the county.

The county assessor is responsible for estimating the market value of auxiliary mining lands and classifying them into one of several property classifications established by Minnesota statutes. The two most common property classifications used on auxiliary mining lands are industrial and timber. In general, lands in close proximity to active taconite operations are assigned the industrial classification while those further away are classified as timber. The classification of various types of property are covered in M.S. 273.13.

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

For the industrial classification, the assessor's estimated market value (EMV) is multiplied by a class rate of 4.75 percent to obtain tax capacity which is then multiplied by the local tax rate to calculate tax payable. The class rate for the timber classification, on the other hand, is 1.6 percent of the estimated market value or about one-third the industrial class rate.

These class rates are set by the Minnesota legislature for taxes payable 1992. For payable 1993, the class rate for the industrial classification is 4.70 percent while timber remained at 1.6 percent. Local tax rates are determined by county, local government and school district spending. For 1992, they range from a low of approximately .9 to a high of approximately 1.80 in St. Louis County.

The above schedule provides for adjustments in both the valuation and classification of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It also outlines valuation adjustments to be made on excess lands (those located more than one-quarter mile from mining activity) that have been disturbed by natural ore mining activity. This schedule was implemented in St. Louis County beginning in 1988 and is subject to change as market conditions and/or Minnesota statutes dictate.

AD VALOREM TAX ON UNMINED NATURAL IRON ORE

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

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

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

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

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

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

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

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

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

For taxes payable in 1992, the class rate for Class 5 property is reduced to 4.75 percent. Local tax rates are a function of county, local government, and school district spending. For 1990, they range from a low of approximately 90 to a high of approximately 182 in St. Louis County. The following class rates are scheduled to take effect in future years:

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

Since 1963, the Revenue Department has tried to maintain all ores on the tax rolls, including the uneconomic, underground, and unavailable classifications. A schedule of minimum rates was established in 1963 and major revisions were made in 1974, 1986, 1988 and 1992. The "Market Values" for iron ores which do not show a value with the Hoskold Formula are determined from the schedule of minimum rates.

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

The 1992 legislature amended M.S. 273.1104, Subd. 1, to eliminate the "times three" multiplier provision in valuing iron ore. In conjunction with this change, the Department of Revenue agreed to triple the minimum rates used in valuing uneconomic ores. Other adjustments made to some of the factors in the Hoskold Formula had the effect of increasing values for the few properties still valued by this method. Therefore, the net effect of the legislative change is close to revenue neutral as was intended. The new schedule revised in 1992 listing market value per ton is listed on the following page.

Figure 37

MINIMUM RATES

Open Pit Uneconomic	Ore Classification	Market Value/Ton (Cents)
(Stripping ratio less than five-to-one)	Wash Ore Conc. (OPC)	12.0
	Heavy Media Conc. (HMC)	9.0
	Low Grade (OPPRC)	3.0
Underground Uneconomic		
(Stripping ratio greater than five-to-one)	Underground Conc. >60% Fe (UGC)	2.4
	Underground Conc. <60% Fe (UGC)	1.8
	Underground Heavy Media (UGHM)	1.5
	Low Grade (UGPRC)	.9

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 underground uneconomic classification. Thus, the market value for underground wash ore with an iron content of less than 60 percent would be calculated as follows: Number of Tons x 1.8-Cents Per Ton = Market Value. The tax would then be determined using the tax capacity formulas explained previously.

Figure 38

IRON ORE AD VALOREM TAX PAID

YEAR ASSESSED	MARKET VALUE	YEAR PAYABLE	ESTIMATED TAX PAYABLE: CROW WING	ITASCA	ST. LOUIS	TOTAL
1979	$30,526,244	1980	$50,034	$774,064	$3,518,928	$4,343,026
1980	26,772,233	1981	42,659	585,267	3,061,142	3,689,068
1981	25,378,108	1982	43,640	487,610	3,239,027	3,770,277
1982	22,442,833	1983	44,479	217,269	3,282,925	3,544,673
1983	20,875,960	1984	51,659	222,023	3,425,894	3,699,576
1984	17,030,758	1985	50,925	152,997	3,122,369	3,326,291
1985	14,092,882	1986	49,508	142,558	2,844,507	3,036,573
1986	11,058,467	1987	29,405	113,672	2,483,064	2,626,141
1987	8,608,800	1988	30,228	112,449	2,229,592	2,372,269
1988	5,771,300	1989	19,365	46,426	812,665	878,456
1989	5,808,900	1990	18,633	44,130	811,489	874,252
1990	4,190,200	1991	17,712	41,199	643,690	702,601
1991	3,401,700	1992	18,966	45,019	429,850	493,835
1992	5,785,900	1993				

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore shall be held on the first secular day following May 20th. It was held May 21, 1992 to conform with the new tax laws. This hearing provides an opportunity for representatives of the mining companies and taxing districts to formally protest any of the ore estimates or valuation procedures which they believe to be incorrect. In addition, current conditions and future trends in the iron ore industry are discussed.

Iron ore ad valorem taxes are expected to continue their long decline with a substantial drop occurring during 1990 and 1991 as the Donora ore body is exhausted.

AD VALOREM TAX ON SEVERED MINERAL INTERESTS

Severed mineral interests are those mineral interests that are owned separately from the title to surface interests in real estate. Severed mineral interests are taxed under M.S. sections 272.039, 272.04, and 273.165, subd. 1 at 25-cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $2 per tract. No tax is due on mineral interests taxed under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

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

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate each taxing district bears to the total surface tax rate in the area, and 20 percent to the Indian Business Loan Account in the State Treasury for business loans to Indians by the Indian Affairs Council under M.S. section 116J.64 (1990). The registration and taxation of severed mineral interests is primarily a county function. The severed mineral interests are registered with the county recorder in the county where the interest is located. The county auditor then sends a tax statement similar to any other real estate interest.

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

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners of these interests to file a document--with the county recorder where the interests were located--describing the mineral interest and asserting an ownership claim to the minerals. The purpose of this requirement was to "identify and clarify the obscure and divided ownership conditions of severed mineral interests in this state," M.S. section 93.52. Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state, M.S. section 93.55.

In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirements, and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc. U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The U.S. Supreme Court refused to hear an appeal requested by one of the plaintiffs. Shortly after this decision, the legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete and giving title to the state.

In 1988, the Legislature amended the law to allow the Commissioner of Natural Resources to lease unregistered severed mineral interests before entry of the court order determining the forfeiture to be complete. However, mining may not commence under such a lease until the court determines that the forfeiture is complete.

In a later separate case, the Minnesota Supreme Court ruled in 1983 that severed mineral interests owned by the Federal Land Bank of St. Paul were exempt from the state severed mineral tax under a federal law exempting Land Bank real estate from local property taxes.

Figure 39

TAX COLLECTION AND DISTRIBUTION

Period Ending	80% Retained by Local Government	20% Payment to Indian Business Loan Account	Total Collections of Affected Counties
June 30, 1985	422,648	105,662	528,310
June 30, 1986	339,577	84,897	424,474
June 30, 1987	298,656	74,664	373,320
June 30, 1988	403,152	100,788	503,940
June 30, 1989	328,683	82,171	410,854
June 30, 1990	380,864	95,216	476,080
Dec. 31, 1990	377,772	94,443	472,215
Dec. 31, 1991	455,128	113,782	568,910

TAXES ON OTHER MINING AND/OR EXPLORATION

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore.

Figure 40 identifies each tax by statute number and references each of them in this publication.

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

Figure 40

INDEX OF OTHER MINING/EXPLORATION TAXES

Tax	Current Laws	Mining Tax Guide Page No.
Ad Valorem Tax (Smelter and Plant Facilities Only)	(M.S. 272 and 273)	See Page 45
Net Proceeds Tax	(M.S. 298.015) - 2.0%	See Page 46
Occupation Tax	(M.S. 298.01) - 9.8%	See Page 24
Sales and Use Tax	(M.S. 297A) - 6.5%	See Page 35
Severed Mineral Interest	(M.S. 273.165)	See Page 43
Withholding Tax on Royalty Payments	(M.S. 290.923) - 7% Withholding from Royalty Payments	See Page 32

OCCUPATION TAX-CORPORATE INCOME TAX

The Minnesota Constitution mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the Occupation Tax shall be computed in accordance with the Minnesota Corporate Franchise (Income) Tax beginning with 1990.

The Corporate Income Tax is 9.8 percent and contains an alternative minimum tax. The effective corporate tax rate for a base or precious metals mine is expected to be about three percent because of the income allocation for out-of-state sales (70%). The three percent rate could vary somewhat depending upon the impact of the allocation formula. For more information on the Alternative Minimum Tax, refer to M.S. 290.092, Subdivision 4, or contact the Minerals Tax Office.

AD VALOREM TAX

The 1991 legislature amended the definition of real property in M.S. 272.03, subdivision 1, to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under chapter 298. This is consistent with the Department of Revenue's previously stated position on taxation of those items. The tax on ore reserves (other than taconite and iron ore) was specifically removed in 1987. (M.S. 273.12, 1987, c. 268, art. 957). Companies mining any of the minerals listed would be subject to property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not* subject to ad valorem tax. In 1991, the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Storage buildings may be assessed as low as $9 or $10 per square foot. Mill rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

Minnesota's property taxes are computed as follows:

For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate of 4.75 percent to obtain gross tax capacity (The first $100,000 of value is at 3.1 percent). This is then multiplied by the local tax rate to calculate tax payable. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates varied from a low of about .9 to a high of approximately 1.80. For more detailed information on assessment of auxiliary mining lands, refer to the section in the guide on "Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations". For taxes payable in future years, the legislature has established target class rates lower than the current rate in an effort to reduce the tax burden on commercial and industrial property. These rates are as follows:

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

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

WITHHOLDING TAX ON ROYALTY

Beginning January 1, 1990, all persons or companies paying royalty were required to withhold Minnesota income tax from their royalty payments (7%) and remit the withholding tax and applicable information to the State of Minnesota, Department of Revenue. See section on Income Tax Withholding on Mining and Exploration Royalty for further information.

SALES & USE TAX

All firms involved in the mining or processing of minerals will be subject to the 6.5 percent sales and use tax on all purchases, except those qualifying for the Industrial Production Exemption. This exemption covers items that are used or consumed in the production of personal property to be sold ultimately at retail. Classification of items included in this exemption are chemicals, fuels, petroleum products, lubricants, packing materials, electricity, gas and steam. Explosives, a major expense for mining, are exempt under the chemical classification. New or expanding businesses may qualify for a refund of all or part of the Sales and Use Tax they paid on purchases of capital equipment. For more information, contact the Minerals Tax Office.

The specific exemption of mill liners applies only to the taconite industry. Purchases of liners or lining materials by other mining operations would be subject to sales and use tax.

NET PROCEEDS TAX

A tax equal to two percent of the net proceeds from mining in Minnesota applies to all mineral and energy resources except sand, silica sand, gravel, building stone, all clays, crushed rock, limestone, granite, dimension stone, horticultural peat, soil, iron ore, and taconite. Net proceeds are the gross proceeds from mining less allowable deductions. The net proceeds tax has been in effect since 1987 and is due on June 15 of the year succeeding the calendar year of the report.

Additional information is available from the Minerals Tax Office.

Gross Proceeds

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

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

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

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

Net Proceeds

The net proceeds tax was designed to apply to mining, generally after initial beneficiation of the ore is completed. It is not intended to tax value added by further refining, smelting, or hydrometallurgical processes applied to previously beneficiated ore concentrates.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as a deduction. Following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

- Sales, marketing, and interest expense.
- Insurance and tax expense not specifically allowed.
- Administrative expense outside of Minnesota.
- Research expense prior to production.
- Reserve for reclamation costs after production ends.
- Royalty expense, depletion allowances, and the cost of mining land.

Allowable Deductions

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

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

The carryback or carryforward of deductions is not allowed.

Distribution

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

MINING INDUSTRY TAX CALENDAR

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

GLOSSARY OF TERMS

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

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

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

Dry Weight -- The weight of iron ore or pellets after drying excluding moisture. For pellets, the dry weight is normally one to two percent less than the natural weight.

Economic Protection Fund -- Often referred to as the 2002 Fund. A portion of taconite production tax revenues is allocated to this fund with the idea that it would be used after the year 2002 to diversify and stabilize the long-range economy of the Iron Range.

Fe Unit -- Commonly referred to as an iron unit. An iron unit is a term of measurement denoting one ton containing one percent iron. Iron ore and taconite produced in the United States is measured in long tons (defined below). One long ton of taconite containing 65 percent iron also contains 65 "long ton" iron units.

The purpose for this type of measurement is the historical and continued use of the selling price quoted in cents per iron unit. One example is a currently published price of acid pellets FOB mine at 37.344-cents per dry gross ton iron unit OR $.37344 per iron unit.

Fiduciary -- An individual or an organization holding something in trust for another. (Sales tax collected establishes a fiduciary relationship between collector and the State of Minnesota).

Flux Pellets -- Taconite pellets containing limestone or another basic flux additive. Adding limestone reduces the iron content of a pellet. Flux pellets were developed to eliminate the need to add limestone in the blast furnace and improve the productivity of the furnace.

Gross National Product Implicit Price Deflator (GNPIPD) -- An index maintained by the U. S. Department of Commerce measuring inflation in the overall economy. The taconite production tax rate is adjusted annually based on the change in this index.

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

This was the starting point for occupation tax since it began in 1921. It was the standard method of pricing domestic iron ore and taconite unit the mid-1980's (see Mine Value).

Long Ton -- The standard unit of weighing for iron ore and taconite in the United States. A long ton is 2,240 pounds.

Metric Ton -- Standard in most areas of the world. It equals 1,000 kilograms or 2,204.6 pounds.

Mine Value -- The value of iron or pellets at the mine. This became the starting point for occupation tax in 1987. This value per iron unit DOES NOT include any rail or lake transportation beyond the mine.

M.S. 298.225 -- A Minnesota statute guaranteeing the taconite production tax aids received by municipalities, counties, schools, and the I.R.R.R.B. The aid levels are adjusted according to a sliding scale based on production levels.

Natural Weight -- The weight of iron ore or pellets including moisture.

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

Non-Equity Sales -- See "Arms-Length Transaction".

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

For 1991 occupation tax purposes, pellet chips were valued at 75 percent of the value of the unbroken pellets.

Percentage Depletion - A deduction from taxable income representing a return on capital investment in a "wasting" asset subject to a gradual reduction in reserves. This deduction applies to income derived from various mining or oil and gas properties. For iron ore, a flat percentage of 15 percent of income from a specific property is allowed.

This deduction, however, cannot exceed 50 percent of taxable income from the property computed without the depletion deduction.

Range Association of Municipalities & Schools (RAMS) -- An association representing all Iron Range cities, towns and schools receiving any funding from the taconite production tax. An office is maintained in Chisholm, Minnesota.

Royalty - Any amount (money or value of property) received for granting permission to explore, mine, take out or remove ore.

Short Ton -- Standard for weighing many commodities in the United States. Equals 2,000 pounds.

Steel Mill Products Index (SMPI) - A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the Department of Labor.

This index is part of the formula used to determine a mine value for occupation tax purposes each year.

Taxable Tons -- The three-year average of the current and prior two years production. The taconite production tax is based on taxable tons.

APPENDIX
PRODUCTION TAX DEDUCTION ON OCCUPATION TAX RETURN

Since the beginning of taconite production, the Occupation Tax Report has allowed a deduction for the production tax paid. However, the deduction has had several changes over the years.

From the first taconite produced in the early 1950's until 1974, the full production tax paid was allowed as a deduction. In 1975, the legislature increased the production tax from 25-cents per ton to 75-cents per ton, but continued the occupation tax deduction at 25-cents per ton.

Through 1976, the production tax was imposed upon the actual tons produced. In 1977, this was changed to the greater of the current year's production or a three-year average of production tons. This continued until 1983.

Possible litigation by the industry over the tax being imposed on the "greater of the current year's production or a three-year average of production" was resolved by eliminating the "greater of" provision and imposing the tax on a three-year average of production.

In order to accomplish this without taxing prior year's production twice, the 1984 production tax was on the 1984 production only. The tax for 1985 was on the average of the 1984 and 1985 production. From 1984 until the present, the tax has remained on a three-year average of production.

Full Allowance of Production Tax Paid

Beginning in 1986, the production tax deduction for occupation tax purposes was increased from 25-cents per ton to the total amount of production tax paid. At that time, the production tax was over $2.00 per ton.

The reason for any variations in the taconite production tax paid column in Figure 27 is the use of the two-year average for 1985 and the three-year average since 1986.

MINERALS AND MINING AGENCIES

MINNESOTA DEPARTMENT OF REVENUE

Local Government Services Division
Minerals Tax Office
P. O. Box 481
Eveleth, MN 55734-0481
Phone: (218) 749-7702 Fax: (218) 749-9646

DONALD H. WALSH, Manager
THOMAS W. SCHMUCKER, Adm. Engineer
NORMA KROGERUS, Revenue Auditor
BILL O'BRIEN, Revenue Auditor
SANDRA D. GORRILL, Revenue Examiner
ROBERT A. WAGSTROM, Mining Engineer
MARY JO GRAHEK, Secretary

IRON RANGE RESOURCES AND REHABILITATION BOARD

P. O. Box 441
Eveleth, MN 55734 (218) 749-7721

JAMES GUSTAFSON, Commissioner
GARY ELLEFSON, Assistant Commissioner
ORLYN J. OLSON, Director, Mineland Reclamation

MINNESOTA DEPARTMENT OF NATURAL RESOURCES

500 Lafayette Road - St. Paul, MN 55146 (612) 296-4807

RODNEY SANDO, Commissioner
BILL BRICE, Director, Division of Minerals
KATHY LEWIS, Leasing Manager
ANDREW TOURVILLE, Assistant Attorney General

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

MARTY VADIS, Assistant Director, Division of Minerals
ARLO KNOLL, Manager of Reclamation
RICHARD C. HEMMERSBAUGH, Manager of Operations

MINNESOTA GEOLOGICAL SURVEY

University of Minnesota
2642 University Avenue - St. Paul, MN 55114 (612) 627-4780

PRISCILLA GREW, Director

NATURAL RESOURCES RESEARCH INSTITUTE

University of Minnesota, Duluth
3151 Miller Trunk Highway - Duluth, MN 55811 (218) 720-4294

MICHAEL LALICH, Director
THYS B. JOHNSON, Director, Center for Applied Research and Technology Division
RODNEY L. BLEIFUSS, Assistant Director, Minerals Division

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