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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. 3245

03/20/2014 Authored by Metsa, Radinovich, Melin, Anzels and Dill
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; minerals; modifying the rates of tax on nonferrous mining;
1.3 modifying the distribution of net proceeds and production tax revenues;
1.4 amending Minnesota Statutes 2012, sections 298.015, subdivision 1; 298.225,
1.5 subdivision 1; 298.28, subdivision 5; Minnesota Statutes 2013 Supplement,
1.6 sections 298.01, subdivision 3; 298.018, subdivision 1; 298.28, subdivision 4.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2013 Supplement, section 298.01, subdivision 3, is
1.9 amended to read:

1.10 Subd. 3. **Occupation tax; other ores.** Every person engaged in the business of
1.11 mining, refining, or producing ores, metals, or minerals in this state, except iron ore or
1.12 taconite concentrates, shall pay an occupation tax to the state of Minnesota as provided
1.13 in this subdivision. For purposes of this subdivision, mining includes the application of
1.14 hydrometallurgical processes. Hydrometallurgical processes are processes that extract
1.15 the ores, metals, or minerals, by use of aqueous solutions that leach, concentrate, and
1.16 recover the ore, metal, or mineral. The tax is determined in the same manner as the tax
1.17 imposed by section 290.02, except that sections 290.05, subdivision 1, clause (a), 290.17,
1.18 subdivision 4, and 290.191, subdivision 2, do not apply, and the occupation tax must be
1.19 computed by applying to taxable income the rate of ~~2.45~~ 1.45 percent. A person subject
1.20 to occupation tax under this section shall apportion its net income on the basis of the
1.21 percentage obtained by taking the sum of:

1.22 (1) 75 percent of the percentage which the sales made within this state in connection
1.23 with the trade or business during the tax period are of the total sales wherever made in
1.24 connection with the trade or business during the tax period;

2.1 (2) 12.5 percent of the percentage which the total tangible property used by the
 2.2 taxpayer in this state in connection with the trade or business during the tax period is of
 2.3 the total tangible property, wherever located, used by the taxpayer in connection with the
 2.4 trade or business during the tax period; and

2.5 (3) 12.5 percent of the percentage which the taxpayer's total payrolls paid or incurred
 2.6 in this state or paid in respect to labor performed in this state in connection with the trade
 2.7 or business during the tax period are of the taxpayer's total payrolls paid or incurred in
 2.8 connection with the trade or business during the tax period.

2.9 The tax is in addition to all other taxes.

2.10 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 2.11 December 31, 2013.

2.12 Sec. 2. Minnesota Statutes 2012, section 298.015, subdivision 1, is amended to read:

2.13 Subdivision 1. **Tax imposed.** A person engaged in the business of mining shall pay
 2.14 to the state of Minnesota for distribution as provided in section 298.018 a net proceeds tax
 2.15 equal to ~~two~~ three percent of the net proceeds from mining in Minnesota. The tax applies
 2.16 to all ores, metals, and minerals mined, extracted, produced, or refined within the state of
 2.17 Minnesota except for sand, silica sand, gravel, building stone, crushed rock, limestone,
 2.18 granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore, and
 2.19 taconite concentrates. The tax is in addition to all other taxes provided for by law.

2.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 2.21 December 31, 2013.

2.22 Sec. 3. Minnesota Statutes 2013 Supplement, section 298.018, subdivision 1, is
 2.23 amended to read:

2.24 Subdivision 1. **Within taconite assistance area.** The proceeds of the tax paid under
 2.25 sections 298.015 and 298.016 on ores, metals, or minerals mined or extracted within the
 2.26 taconite assistance area defined in section 273.1341, shall be allocated as follows:

2.27 (1) five percent to the city or town within which the minerals or energy resources
 2.28 are mined or extracted, or within which the concentrate was produced. If the mining
 2.29 and concentration, or different steps in either process, are carried on in more than one
 2.30 taxing district, the commissioner shall apportion equitably the proceeds among the
 2.31 cities and towns by attributing 50 percent of the proceeds of the tax to the operation of
 2.32 mining or extraction, and the remainder to the concentrating plant and to the processes of

3.1 concentration, and with respect to each thereof giving due consideration to the relative
 3.2 extent of the respective operations performed in each taxing district;

3.3 (2) ten percent to the taconite municipal aid account to be distributed as provided
 3.4 in section 298.282;

3.5 (3) ten percent to the school district within which the minerals or energy resources
 3.6 are mined or extracted, or within which the concentrate was produced. If the mining
 3.7 and concentration, or different steps in either process, are carried on in more than one
 3.8 school district, distribution among the school districts must be based on the apportionment
 3.9 formula prescribed in clause (1);

3.10 (4) 20 percent to a group of school districts comprised of those school districts
 3.11 wherein the mineral or energy resource was mined or extracted or in which there is a
 3.12 qualifying municipality as defined by section 273.134, paragraph (b), in direct proportion
 3.13 to school district indexes as follows: for each school district, its pupil units determined
 3.14 under section 126C.05 for the prior school year shall be multiplied by the ratio of the
 3.15 average adjusted net tax capacity per pupil unit for school districts receiving aid under
 3.16 this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year
 3.17 ending prior to distribution to the adjusted net tax capacity per pupil unit of the district.
 3.18 Each district shall receive that portion of the distribution which its index bears to the sum
 3.19 of the indices for all school districts that receive the distributions;

3.20 (5) 20 percent to the county within which the minerals or energy resources are
 3.21 mined or extracted, or within which the concentrate was produced. If the mining and
 3.22 concentration, or different steps in either process, are carried on in more than one county,
 3.23 distribution among the counties must be based on the apportionment formula prescribed in
 3.24 clause (1), provided that any county receiving distributions under this clause shall pay one
 3.25 percent of its proceeds to the Range Association of Municipalities and Schools;

3.26 (6) 20 percent to St. Louis County acting as the counties' fiscal agent to be
 3.27 distributed as provided in sections 273.134 to 273.136;

3.28 (7) five percent to the Iron Range Resources and Rehabilitation Board for the
 3.29 purposes of section 298.22;

3.30 (8) ~~five~~ three percent to the Douglas J. Johnson economic protection trust fund; and

3.31 (9) ~~five~~ seven percent to the taconite environmental protection fund.

3.32 The proceeds of the tax shall be distributed on July 15 each year.

3.33 **EFFECTIVE DATE.** This section is effective July 1, 2014.

3.34 Sec. 4. Minnesota Statutes 2012, section 298.225, subdivision 1, is amended to read:

4.1 Subdivision 1. **Guaranteed distribution.** (a) The distribution of the taconite
 4.2 production tax as provided in section 298.28, subdivisions 3 to 5, 6, paragraph (b), 7, and
 4.3 8, shall equal the lesser of the following amounts:

4.4 (1) the amount distributed pursuant to this section and section 298.28, with respect
 4.5 to 1983 production if the production for the year prior to the distribution year is no less
 4.6 than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the
 4.7 amount of the distributions shall be reduced proportionately at the rate of two percent
 4.8 for each 1,000,000 tons, or part of 1,000,000 tons by which the production is less than
 4.9 42,000,000 tons; or

4.10 (2)(i) for the distributions made pursuant to section 298.28, subdivisions 4,
 4.11 paragraphs (b) and (c), and 6, paragraph (c), 31.2 percent of the amount distributed
 4.12 pursuant to this section and section 298.28, with respect to 1983 production;

4.13 (ii) for the distributions made pursuant to section 298.28, subdivision 5, paragraphs
 4.14 (b) and (d), 75 percent of the amount distributed pursuant to this section and section
 4.15 298.28, with respect to 1983 production.

4.16 (b) The distribution of the taconite production tax as provided in section 298.28,
 4.17 subdivision 2, shall equal the following amount:

4.18 (1) if the production for the year prior to the distribution year is at least 42,000,000
 4.19 taxable tons, the amount distributed pursuant to this section and section 298.28 with
 4.20 respect to 1999 production; or

4.21 (2) if the production for the year prior to the distribution year is less than 42,000,000
 4.22 taxable tons, the amount distributed pursuant to this section and section 298.28 with respect
 4.23 to 1999 production, reduced proportionately at the rate of two percent for each 1,000,000
 4.24 tons or part of 1,000,000 tons by which the production is less than 42,000,000 tons.

4.25 (c) The guaranteed distribution under paragraph (a) for distributions made to
 4.26 counties under section 298.28, subdivision 5, paragraph (b), based on mines or plants
 4.27 that have ceased operations ten or more years before the production year on which the
 4.28 distribution is based must be made at one-half the amount that otherwise would apply.

4.29 **EFFECTIVE DATE.** This section is effective beginning for the 2015 distribution.

4.30 Sec. 5. Minnesota Statutes 2013 Supplement, section 298.28, subdivision 4, is
 4.31 amended to read:

4.32 Subd. 4. **School districts.** (a) ~~32.15~~ 33.5 cents per taxable ton, plus the increase
 4.33 provided in paragraph (d), less the amount that would have been computed under
 4.34 Minnesota Statutes 2008, section 126C.21, subdivision 4, for the current year for that

5.1 district, must be allocated to qualifying school districts to be distributed, based upon the
 5.2 certification of the commissioner of revenue, under paragraphs (b), (c), and (f).

5.3 (b)(i) ~~3.43~~ 3.88 cents per taxable ton must be distributed to the school districts in
 5.4 which the lands from which taconite was mined or quarried were located or within which
 5.5 the concentrate was produced. The distribution must be based on the apportionment
 5.6 formula prescribed in subdivision 2.

5.7 (ii) ~~Four~~ 4.45 cents per taxable ton from each taconite facility must be distributed
 5.8 to each affected school district for deposit in a fund dedicated to building maintenance
 5.9 and repairs, as follows:

5.10 (1) proceeds from Keewatin Taconite or its successor are distributed to Independent
 5.11 School Districts Nos. 316, Coleraine, and 319, Nashwauk-Keewatin, or their successor
 5.12 districts;

5.13 (2) proceeds from the Hibbing Taconite Company or its successor are distributed to
 5.14 Independent School Districts Nos. 695, Chisholm, and 701, Hibbing, or their successor
 5.15 districts;

5.16 (3) proceeds from the Mittal Steel Company and Minntac or their successors are
 5.17 distributed to Independent School Districts Nos. 712, Mountain Iron-Buhl, 706, Virginia,
 5.18 2711, Mesabi East, and 2154, Eveleth-Gilbert, or their successor districts;

5.19 (4) proceeds from the Northshore Mining Company or its successor are distributed
 5.20 to Independent School Districts Nos. 2142, St. Louis County, and 381, Lake Superior,
 5.21 or their successor districts; and

5.22 (5) proceeds from United Taconite or its successor are distributed to Independent
 5.23 School Districts Nos. 2142, St. Louis County, and 2154, Eveleth-Gilbert, or their
 5.24 successor districts.

5.25 Revenues that are required to be distributed to more than one district shall be
 5.26 apportioned according to the number of pupil units identified in section 126C.05,
 5.27 subdivision 1, enrolled in the second previous year.

5.28 (c)(i) ~~24.72~~ 25.17 cents per taxable ton, less any amount distributed under paragraph
 5.29 (e), shall be distributed to a group of school districts comprised of those school districts
 5.30 which qualify as a tax relief area under section 273.134, paragraph (b), or in which there is
 5.31 a qualifying municipality as defined by section 273.134, paragraph (a), in direct proportion
 5.32 to school district indexes as follows: for each school district, its pupil units determined
 5.33 under section 126C.05 for the prior school year shall be multiplied by the ratio of the
 5.34 average adjusted net tax capacity per pupil unit for school districts receiving aid under
 5.35 this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year
 5.36 ending prior to distribution to the adjusted net tax capacity per pupil unit of the district.

6.1 Each district shall receive that portion of the distribution which its index bears to the sum
6.2 of the indices for all school districts that receive the distributions.

6.3 (ii) Notwithstanding clause (i), each school district that receives a distribution
6.4 under sections 298.018; 298.23 to 298.28, exclusive of any amount received under this
6.5 clause; 298.34 to 298.39; 298.391 to 298.396; 298.405; or any law imposing a tax on
6.6 severed mineral values after reduction for any portion distributed to cities and towns
6.7 under section 126C.48, subdivision 8, paragraph (5), that is less than the amount of its
6.8 levy reduction under section 126C.48, subdivision 8, for the second year prior to the
6.9 year of the distribution shall receive a distribution equal to the difference; the amount
6.10 necessary to make this payment shall be derived from proportionate reductions in the
6.11 initial distribution to other school districts under clause (i). If there are insufficient tax
6.12 proceeds to make the distribution provided under this paragraph in any year, money must
6.13 be transferred from the taconite property tax relief account in subdivision 6, to the extent
6.14 of the shortfall in the distribution.

6.15 (d)(1) Any school district described in paragraph (c) where a levy increase pursuant
6.16 to section 126C.17, subdivision 9, was authorized by referendum for taxes payable in
6.17 2001, shall receive a distribution of 21.3 cents per ton. Each district shall receive \$175
6.18 times the pupil units identified in section 126C.05, subdivision 1, enrolled in the second
6.19 previous year or the 1983-1984 school year, whichever is greater, less the product of 1.8
6.20 percent times the district's taxable net tax capacity in 2011.

6.21 (2) Districts qualifying under paragraph (c) must receive additional taconite aid each
6.22 year equal to 22.5 percent of the amount obtained by subtracting:

6.23 (i) 1.8 percent of the district's net tax capacity for 2011, from:

6.24 (ii) the district's weighted average daily membership for fiscal year 2012, multiplied
6.25 by the sum of:

6.26 (A) \$415, plus

6.27 (B) the district's referendum revenue allowance for fiscal year 2013.

6.28 If the total amount provided by paragraph (d) is insufficient to make the payments
6.29 herein required then the entitlement of \$175 per pupil unit shall be reduced uniformly
6.30 so as not to exceed the funds available. Any amounts received by a qualifying school
6.31 district in any fiscal year pursuant to paragraph (d) shall not be applied to reduce general
6.32 education aid which the district receives pursuant to section 126C.13 or the permissible
6.33 levies of the district. Any amount remaining after the payments provided in this paragraph
6.34 shall be paid to the commissioner of Iron Range resources and rehabilitation who shall
6.35 deposit the same in the taconite environmental protection fund and the Douglas J. Johnson
6.36 economic protection trust fund as provided in subdivision 11.

7.1 Each district receiving money according to this paragraph shall reserve the lesser of
 7.2 the amount received under this paragraph or \$25 times the number of pupil units served in
 7.3 the district. It may use the money for early childhood programs.

7.4 (e) There shall be distributed to any school district the amount which the school
 7.5 district was entitled to receive under section 298.32 in 1975.

7.6 (f) Four cents per taxable ton must be distributed to qualifying school districts
 7.7 according to the distribution specified in paragraph (b), clause (ii), and 11 cents per taxable
 7.8 ton must be distributed according to the distribution specified in paragraph (c). These
 7.9 amounts are not subject to sections 126C.21, subdivision 4, and 126C.48, subdivision 8.

7.10 **EFFECTIVE DATE.** This section is effective beginning for the 2015 distribution.

7.11 Sec. 6. Minnesota Statutes 2012, section 298.28, subdivision 5, is amended to read:

7.12 Subd. 5. **Counties.** (a) 26.05 cents per taxable ton is allocated to counties to be
 7.13 distributed, based upon certification by the commissioner of revenue, under paragraphs
 7.14 (b) to (d).

7.15 (b) 15.525 cents per taxable ton shall be distributed to the county in which the
 7.16 taconite is mined or quarried or in which the concentrate is produced, less any amount
 7.17 which is to be distributed pursuant to paragraph (c). The apportionment formula prescribed
 7.18 in subdivision 2 is the basis for the distribution.

7.19 (c) If an electric power plant owned by and providing the primary source of power for
 7.20 a taxpayer mining and concentrating taconite is located in a county other than the county
 7.21 in which the mining and the concentrating processes are conducted, one cent per taxable
 7.22 ton of the tax distributed to the counties pursuant to paragraph (b) and imposed on and
 7.23 collected from such taxpayer shall be paid to the county in which the power plant is located.

7.24 (d) ~~10.525~~ 11.416 cents per taxable ton shall be paid to the county from which the
 7.25 taconite was mined, quarried or concentrated to be deposited in the county road and
 7.26 bridge fund. If the mining, quarrying and concentrating, or separate steps in any of those
 7.27 processes are carried on in more than one county, the commissioner shall follow the
 7.28 apportionment formula prescribed in subdivision 2.

7.29 **EFFECTIVE DATE.** This section is effective beginning for the 2015 distribution.