

# Mining – Metals, Minerals, Ore, and Taconite

Sales Tax Fact Sheet 147

## What's New in 2018

We clarified when sellers are required to collect local sales taxes. See Local Sales and Use Taxes on page 4.

This fact sheet explains when purchases by the mines are subject to tax.

## What is the industrial production process?

The production process begins with the removal of overburden from the ore body.

The production process ends with the last process before stockpiling. If the product is not stockpiled, production ends with the last process before loading for shipment.

**Note:** The last process before stockpiling or loading for shipment means the last process that changes the form, iron content, flux content, or silica content of the product.

The production process does not include:

- Adding water or chemicals to control dust before stockpiling or loading for shipment
- Painting, cleaning, or repair and maintenance of equipment and facilities, tailings basins, and water treatment facilities
- Storage and handling of stockpiled or finished goods that have been placed into inventory
- Materials (including chemicals), fuels, and electricity used to maintain tailings basins

## What purchases are exempt?

### Materials used in production

Materials that are used (or consumed) to produce a product for sale at retail are exempt from sales tax. To buy these materials exempt, give the seller a completed Form ST3, *Certificate of Exemption*.

### Examples of materials used in production

- Bentonite
- Chemicals (flocculents)
- Electricity
- Explosives
- Fuels (coal, diesel, natural gas)
- Lubricants (grease, oil also includes hydraulic oil, anti-freeze, and transmission fluid)

For more information, see Fact Sheet 145, *Industrial Production*.

### Separate detachable units

Accessory tools, other short-lived items, and materials to make qualifying detachable tools may be purchased exempt for any tool that meets the following requirements:

1. It must be a separate item detachable from the basic machine or equipment.
2. It must be used to produce a direct effect on the product.
3. It must have an ordinary useful life of less than 12 months when used continuously in production under normal conditions of the user.

The basic machine or equipment, its components, and repair parts (such as belts, pulleys, gears, shafts, bearings, and hand tools) are not separate detachable tools.

If the cost of separate detachable tools is included as part of a lump sum price when the basic machine or equipment is purchased, they are taxable.

### Examples of separate detachable units

- Cables on shovels and drills used for positioning
- Cutting edges for dozers and loaders plus the bolts, washers, and nuts to attach them
- Drill bits and reamers used to drill the ore body for blasting
- Drop balls or chunk breakers used for breaking rocks or chunks
- End and corner bits for dozers and loaders plus the bolts, washers, and nuts to attach them
- Filter bags or cloth used in the filters extracting water from the concentrate
- Grizzly bars used for sizing (coarse crusher), unless they have wear caps
- Lip shrouds and lowering wing shrouds on shovel and loader buckets
- Magnetic separator skins on cobber magnetic separators only
- Ripper teeth for ground breaking
- Roll screen rolls used for sizing (pelletizer)
- Screen panels or cloth
- Skirtboard rubber
- Teeth or points used on shovel and front end loader buckets
- Wear caps covering the shovel bucket adapters and/or grizzly bars
- Wear shoes on spiral classifiers

### Mining production materials

Mining production materials are exempt from sales tax if they buyer is taxed under Minnesota Statutes, Chapter 298.

The exemption applies to mill liners, grinding rods and balls that:

- Are substantially consumed in the production of taconite; and
- Primarily become part of the product being produced.

For purposes of mining, the term “mill” includes all facilities used to reduce and process the mined material. It does not include shovels, drills, or other mobile equipment.

**Note:** Since October 1, 2011, this exemption also applies to other ores, metals, and minerals production materials.

To buy these materials exempt, give the seller a completed Form ST3, *Certificate of Exemption*.

### Examples of mining production materials

- Autogenous mill liners, rod and ball mill liners, and feed and discharge end liners
- Bowl, concave, and mantle liners for both the coarse and fine crusher
- Chute, bin, and dump pocket liners (bar, steel plate, or ni-hard)
- Classifier wear plates
- Crusher (spider caps, rim liners, lower hub liners, pinion shaft liners, feed openings liners, wear rings, torch rings, lock nut covers, lock nuts without a cover, and other crusher-related liners)
- Discharge trunnion liners
- Grinding rods and balls, and mill liner bolts
- Linatex or urethane material used in lining (launders, pipes, cyclones, apexes, and magnetic separator drop boxes)
- Magnetic separator pans
- Norback kits (except when used as a substitute for zinc when relining crushers)
- Pump gland side, suction side, end plate liners, and throat bushings
- Refractory brick and refractory used in the furnace pre-heat and fire zone

### Repair labor

Labor to repair production materials is not taxable.

## Capital Equipment

Capital equipment means machinery and equipment that:

- the buyer or lessee uses in Minnesota primarily to manufacture, fabricate, mine, or refine a product for retail sale; and
- is essential to the integrated production process.

**Note:** Starting July 1, 2015, the capital equipment exemption is allowed at the time of purchase. To buy capital equipment exempt, give the seller a completed Form ST3, *Certificate of Exemption*.

Before July 1, 2015, you had to pay sales or use tax when you buy or lease capital equipment and apply for a refund.

To get the refund of the tax you paid, file Form ST11, *Sales and Use Tax Refund Request*.

### Examples of capital equipment in the mine

- Adapters, C-clamps and pins on shovel buckets and loaders
- Chain covers for truck or loader tires
- Drill steel
- Electrical cable for drills and shovels
- Loader bucket liners
- Material such as gears, bearings, nuts, bolts, or washers used to repair equipment
- Motors and engines
- Ore car liners
- Portable welders
- Shovel bucket liners
- Tools to repair or maintain mining equipment
- Truck and loader tires
- Truck box liners, shovel, and truck pads

### Examples of capital equipment in the plant

- Classifier (shaft, arms, and flights)
- Conveyors (conveyor belts, troughing, rollers, return rollers, scrapers, and idlers)
- Electric motors
- Electrical parts (control boxes, transformers, circuit breakers, wire, cable trays, hangers, and connectors)
- Filter sectors and necks
- Gears, bearings, bearing liners, sprockets, and couplings
- Linatex used for patches, seals, gaskets, and lining behind liners
- Magnetic separator skins on roughers and finishers, end caps, and shafts
- Maintenance equipment and tools (crane, impact wrench, hydraulic jack drill, hammer, screwdriver, and pliers)
- Pan feeder plates
- Pipe, pipe elbows, tees, caps, and hangers
- Pulleys, pillow blocks, lifting chains, pad eyes
- Pumps (case, barrel, side plates, impeller, packing, sleeve, lantern ring, and belts)
- Refractory in cooler and heat recoup, anchors, and lining
- Sleeves, rubber grommets, washers, and nuts used with mill liner bolts
- T-bolts, sleeves, rubber grommets, washers, and nuts used to install liners
- Torch (gauges, hoses, cutting tips)
- Traveling grate parts in kiln (chain, pallet wheels, grate, and side plates)

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## What purchases are taxable?

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### Taxable purchases

The production exemptions do not apply to tools, machinery, and equipment that are not used primarily in the production process.

Examples include:

- Fork lifts
- Oxygen and acetylene gases, tanks, and carts
- Slings and ropes
- Light plants

The exemption does not apply to activities that are not part of the production process, such as:

- Cleaning, repair, or maintenance of the plant facilities
- Customer service activities
- General janitorial activities
- General office administration including clerical, personnel, and accounting activities
- Internal product and production tracking
- Inventory management
- Managerial functions such as business and production analysis and supervision
- Pollution control, prevention, or abatement
- Plant cleaning, disposal of scrap and waste, plant communications, heating, cooling, lighting, or safety
- Plant security, fire prevention, first aid, and hospital stations
- Providing a safe work environment
- Sales and distribution activities
- Support operations or administrative activities
- Warehousing

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## Miscellaneous information

### Clothing

Most general clothing items are exempt. Safety or protective items a person wears for industrial or general job activities are not considered clothing and are taxable.

#### Examples of nontaxable clothing:

- Boots and shoes
- Coveralls (including rubber)
- Hats and caps
- Prescription safety glasses
- Rain gear (jackets, pants, coats, and ponchos)

#### Examples of taxable clothing:

- Ear plugs and hearing protectors
- Hard hats and safety belts
- Non-prescription safety glasses
- Respirators
- Welding helmet and goggles
- Welding jackets, gloves, vests, or chaps

### Leases

If the item is taxable when you buy it, it is taxable when you rent or lease it.

### 'Waste treatment'

"Waste treatment" means the removal of contaminants.

Materials, including chemicals, fuels, and electricity, purchased by persons engaged in industrial production to treat waste generated as a result of the production process are exempt.

### Tailings Basins

A tailings basin is a waste repository where industrial waste is contained. While the liquids and solids separate over time within a tailings basin, water-soluble contaminants remain in the water. The separation of liquid and solid that occurs over time and does not remove waste contaminants is not treatment of waste.

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## Local Sales and Use Taxes

If you are located in or make sales into an area with a local tax, you may owe local sales or use tax. For more information, see Fact Sheet 164, *Local Sales and Use Taxes*.

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### Use tax

If you buy taxable items or services that are used, stored, or consumed in Minnesota without paying sales tax, you owe use tax. For more information, see Fact Sheet 146, *Use Tax for Businesses*.

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## How to report Sales and Use Tax

You can report state, local, and use taxes online at [www.revenue.state.mn.us](http://www.revenue.state.mn.us) or by phone at 1-800-570-3329 (toll-free).

For more information on how to file:

1. Go to our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us)
2. Click **Sales and Use Tax**
3. Under “I need to file Sales and Use Tax...” click **Electronically** or **Phone**.

### **Legal References**

Minnesota Statute 297A.67, subd. 8, Clothing

Minnesota Statute 297A.68

subd. 2, Materials consumed in industrial production

subd. 4, Taconite, other ores, metals, or minerals; production materials

Minnesota Statutes 298, Minerals Taxes

Minnesota Statute 298.24, Tax on Taconite and Iron Sulphides

Minnesota Rule 8130.5500, Agricultural and Industrial Production

Minnesota Rule 8130.9600, Iron Mining Industry Exemptions

### **Other Fact Sheets**

103, *Capital Equipment*

105, *Clothing*

112, *Building and Cleaning Maintenance*

114, *Detective and Security Service*

116, *Petroleum Products*

129, *Utilities Used in Production*

134, *Computer Software*

145, *Industrial Production*

146, *Use Tax for Businesses*