

**TACONITE TAX  
SALES TAX  
Production Tax Rate Reduced,  
Improvement Grants Authorized,  
Sales Tax Capital Equipment Exemptions**

April 17, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		X

Department of Revenue  
H.F. 2436 (McElroy)

**PRELIMINARY ANALYSIS**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
Sales tax exemptions	(\$3,700)	(\$2,450)	(\$1,200)	(\$1,200)
State school aid impact		\$0	\$0	\$0
Homeowner refund impact	_____	(\$140)	(\$140)	(\$140)
General Fund Total	(\$3,700)	(\$2,590)	(\$1,340)	(\$1,340)

Sales tax changes effective for sales and purchases after June 30, 2001.  
Taconite production tax changes effective for the 2001 production year and thereafter.

**EXPLANATION OF THE BILL**

**Current Law:**

*Taconite Production Tax:*

The Minnesota Minerals 21<sup>st</sup> Century Fund is a separate revolving account in the general fund intended to provide loans or equity investments in mineral processing facilities including, but not limited to, taconite processing. Loans or investments are intended to match a contribution by the owner of a facility.

The taconite production tax rate for concentrates and pellets produced in 1999 was \$2.141 per taxable ton. For concentrates produced in 2000 and subsequent years the tax rate is equal to the rate in the preceding year adjusted for inflation with the implicit price deflator. The production tax is paid directly to each eligible county and the Iron Range Resources and Rehabilitation Board (IRRRB), on or before February 24, covering production in the previous year.

Annual distribution of the production tax to school districts includes a distribution of 4.46 cents per ton for the taconite districts in which mining and concentrating occurs. Another 17.82 cents per ton is split among the 15 school districts in the taconite relief area. This amount may be increased or reduced by the

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percentage aid guarantee provisions in current law. Taconite school districts qualify for an additional \$175 per pupil unit by passing a special levy referendum equal to 1.8 percent of net tax capacity.

The production tax also funds a 38.81 cents per ton distribution to the taconite relief area for a taconite homestead credit relief program for homeowners. In addition, 15.4 cents per ton is distributed to the taconite economic development fund, 5 cents per ton to the taconite environmental fund, and 3.35 cents per ton to the northeast Minnesota economic protection trust fund. Beginning in 2000, these distributions will be indexed for inflation using the implicit price deflator. No distribution is made to the taconite economic development fund or the taconite environmental fund in a year when total taconite production falls below 30 million tons.

The distribution of 17.82 cents per ton to the 15 school districts in the taconite relief area is guaranteed equally from the taconite environmental protection fund and the northeast Minnesota economic protection trust fund. This guarantee is the lesser of a variable guarantee or 40.5 percent of the distribution from the 1983 production year. The 38.31 cents per ton distribution to the taconite relief area to fund taconite homestead credit for homeowners is guaranteed by the northeast economic protection trust fund at the level required to reimburse local governments for the taconite homestead credit.

*Sales Tax:*

Purchases and leases of qualifying capital equipment or replacement capital equipment for use in Minnesota are taxable at the time of purchase. However, this equipment is eligible for a refund of the Minnesota sales tax paid. Pollution control equipment and storage and disposal equipment are not included as capital equipment and purchases of these items are generally considered taxable retail sales.

**Proposed Law:**

*Taconite production tax:*

The Department of Trade and Economic Development would give highest priority for the money in the Minnesota Minerals 21<sup>st</sup> Century Fund to grants to taconite producers for capital improvements at taconite processing plants. The grants would be made based on \$1 per ton of taconite produced in 2000, the plant must have produced one million tons in the previous year, and a match would not be required. If the grants exceed the money available in the fund, the grants would be proportionately reduced.

The taconite production tax rate for concentrates and pellets produced in 2001 and thereafter is reduced to \$1.673 per ton and the rate is frozen thereafter. Rather than a single payment on February 24 of the year following the production year, the payment is divided into four equal payments, beginning February 24, May 24, August 24, and November 24 of 2002. Distributions must be made first to school districts.

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The proposal eliminates the distribution of 17.82 cents per ton among the 15 school districts in the taconite relief area. The proposal also eliminates the requirement for a special referendum to qualify for the additional \$175 per pupil unit, and provides that any district receiving a distribution from either the 4.46 cents per ton distribution for districts in mining and concentrating areas, or the 17.82 cents per ton distribution in the taconite relief area in 2001 are eligible for the \$175 per pupil unit, regardless of a referendum. If the total payments exceed the total in the fund, the payments would be reduced proportionately.

The 38.81 cents per ton distribution to the taconite relief area to fund a taconite homestead credit relief program for homeowners would be reduced to 23.11 cents per ton. The limit on distributions to the taconite economic development fund and the taconite environmental fund to years where total taconite production exceeds 30 million tons is deleted. The distribution of 3.35 cents per ton to the northeast Minnesota economic protection trust fund is repealed. The proposal thus in effect eliminates the fund guarantee provisions for the taconite homestead credit payments and the school distributions after current revenue is expended from the northeast Minnesota economic protection trust fund, though the guarantee provided to the school funds from ongoing distributions to the taconite environmental trust fund will make up some of the difference.

The "implicit price deflator" used to adjust the taconite funds for inflation is qualified to mean the implicit price deflator for gross domestic product as published by the Bureau of Economic Analysis.

*Sales tax:*

Purchases and leases of capital equipment and replacement capital equipment used for mining and refining taconite would be exempt at the time of purchase. A refund claim would no longer be required. Also, tangible personal property used for storage or disposal of taconite tailings and for the control of pollution generated by the mining or refining of taconite would be exempt as capital equipment and would be allowed the same upfront exemption.

## **REVENUE ANALYSIS DETAIL**

*Taconite Production Tax:*

- Based on the department's *Minnesota Mining Tax Guide* published last year, the fund balances for taconite funds as of June 20, 2000 were as follows: northeast Minnesota economic protection trust fund, \$78,602,904, and the taconite environmental protection fund, \$4,632,476. Department information indicates that the current balance in the taconite property tax relief fund is about \$17,000,000.

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- According to the department's information, the 17.82 cents per ton taconite distribution to 15 school districts in the taconite relief area currently totals \$7.5 million in revenue. According to the Minnesota Department of Children, Families, and Learning (CFL), nearly 95 percent, or \$7.1 million of this revenue will be made up by a levy increase. The proposed expansion of the taconite referendum fund payment to provide \$175 per pupil unit to the districts whether or not they have passed a referendum will not currently aid the districts, because all of them have passed referenda and are eligible for referendum aid.
- The increase of \$7.1 million in school levy from elimination of the 17.82 cents per ton taconite fund will increase tax burden for all taxpayers including homeowners.
- Homeowner property tax refund would increase by \$140,000, beginning in F.Y. 2003.
- The proposed reduction of taconite tax rates and the elimination of the northeast Minnesota economic protection trust fund distribution will eventually affect the current law guarantee for the taconite homestead credit payments to homeowners, though not within the forecast period.
- The reduction of taconite production tax rates does not directly affect the state general fund because the taconite tax is a local tax.

*Sales tax:*

- Information from the Minnesota Mining Tax Guide identifies the amount of the capital equipment refunds in calendar year 2000 as \$12.5 million. It is assumed that the level of purchases would remain about the same during the forecast period, and that the up-front exemption would initially shift 20% of the total from fiscal year 2003 into fiscal year 2002, with a smaller net shift occurring in the following year.
- It is estimated that the statewide annual amount spent by the taconite industry for property used for storage and disposal of taconite tailings and control of pollution for calendar year 2000 was approximately \$18 million. It was assumed that these expenditures would also remain at about the same level for the forecast period.

**Number of Taxpayers Affected:** All taxpayers in the 15 school districts of the taconite relief area will be affected by the elimination of the taconite 17.82 cents per ton distribution. Owners of taconite mining property will have a taconite tax reduction.

There are about eight taconite companies in the state in a given year that would qualify for the sales tax exemption.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

The costs to administer this bill will be minimal. All taxpayers will be notified of this law change, instructional materials and fact sheets will be updated as needed to reflect the law change, and any additional phone calls and correspondence will be handled by existing staff.

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Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>