# MINNESOTA·REVENUE

**TACONITE PRODUCTION TAX**
**Tax Rate Clarification for**
**Direct Reduced Ore**

February 24, 2004

|  | Yes | No |
|---|---|---|
| Separate Official Fiscal Note Requested |  |  |
| **Fiscal Impact** |  |  |
| DOR Administrative Costs/Savings |  |  |

Department of Revenue
Analysis of H.F. 2083 (Dill) / S.F. 2105 (Bakk)

| | **Revenue Gain or (Loss)** | | |
|---|---|---|---|
| **F.Y. 2004** | **F.Y. 2005** | **F.Y. 2006** | **F.Y. 2007** |
| | (000's) | | |
| General Fund                $0 | $0 | $0 | $0 |

Effective for direct reduced ore produced after the date of final enactment.

## EXPLANATION OF THE BILL

**Current Law:**  The taconite production tax rate from 2001 to 2003 was $2.103 per ton of iron ore concentrates produced.  Beginning in 2004, the rate is adjusted annually for inflation according to the implicit price deflator for gross domestic product.  For direct reduced ore, there is an additional tax of 3¢ per gross ton for each 1% that the iron content exceeds 72% when dried at 212 degrees Fahrenheit.

No tax is imposed for the first two years of a plant's production of direct reduced ore.  Phase-in rates are applied to direct reduced ore for production in the subsequent years:
- Third year:     25% of the tax rate
- Fourth year:    50% of the tax rate
- Fifth year:     75% of the tax rate
- Thereafter:     Full tax rate

The taconite production tax is a local revenue source for various jurisdictions within the Taconite Assistance Area.

**Proposed Law:**  The proposal creates a distinction between commercial and noncommercial production of direct reduced ore.  Commercial production is defined as production of more than 50,000 tons of direct reduced ore per year.  The bill specifies that noncommercial production is untaxed for the first two years.

**REVENUE ANALYSIS DETAIL**

- According to the Minerals Tax Office of the Department of Revenue, the proposal clarifies existing law and policy.  Therefore there should be no state or local impact.

**Number of Taxpayers:** Currently one facility.


Source:  Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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