

# MINNESOTA • REVENUE

## TACONITE PRODUCTION TAX Rate Adjustment

May 1, 2003

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

Department of Revenue

Analysis of S.F. 476 (Bakk) As Amended Senate Tax Committee on April 30, 2003

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund	\$0	\$0	\$0	\$0

Effective the day following final enactment.

### EXPLANATION OF THE BILL

**Current Law:** For taconite concentrate produced in 2001, 2002, and 2003, the production tax is imposed at a rate of \$2.103 per gross ton. The tax is imposed on the average of the production for the current year and previous two years. The tax rate is adjusted in 2004 and subsequent years by adding an amount equal to the previous year's tax rate multiplied by the percentage increase in the implicit price deflator.

For the first two years of a plant's production of on direct reduced ore, no tax on taconite concentrate is imposed. Beginning the third year of production, the tax on concentrates is phased in annually by 25% intervals until the full tax is imposed in the sixth year.

**Proposed Law:** The proposal postpones for two years (until 2006) the application of the implicit price deflator adjustment to the taconite production tax rate.

**As amended,** commercial production is the production of more than 50,000 tons of direct reduced ore per year. Notwithstanding the tax on concentrates, no tax is imposed on the first two years of a plant's commercial production of direct reduced ore. Beginning the third year of commercial production, the tax on concentrates is phased in by 25% intervals annually until the full tax is collected in the sixth year. For noncommercial production of direct reduced ore, no tax on concentrates is imposed the first two years of a plant's production, and the full tax is imposed each year thereafter.

### **EXPLANATION OF THE BILL (continued)**

**As amended,** The Iron Range Resources and Rehabilitation Agency is authorized to apply for, borrow, receive, and expend grant and loan money made available from federal sources and from federally fund programs for the purpose of rural development financing in the taconite tax relief areas.

**As amended,** if a taconite production facility is sold after operations at the facility had ceased, any money remaining in the taconite environmental fund for the former producer may be released to the purchaser of the facility. Any portion of the fund not released within two years of deposit shall be redistributed, with two-thirds going to the taconite environmental protection fund and one-third to the northeast Minnesota economic protection trust fund.

**As amended,** no changes are made to the occupation tax.

### **REVENUE ANALYSIS DETAIL**

- There would be no impact on state revenues from the change to production tax rate.

**Number of Taxpayers Affected:** Companies subject to the production tax.

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