

MINNESOTA • REVENUE

MINING OCCUPATION TAX TACONITE PRODUCTION TAX Rate Reductions

March 13, 2003

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

Department of Revenue
Analysis of S.F. 476 (Bakk) / H.F. 563 (Rukavina)

| | <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 | (\$2,120) | (\$1,630) | (\$1,460) | (\$1,220) |

Effective for taxable years beginning after December 31, 2002.

EXPLANATION OF THE BILL

Current Law: The tax rate for the occupation tax on iron ore and taconite is 9.8%. The alternative minimum tax rate is 5.8%.

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.

Proposed Law: The proposal lowers the occupation tax rate from 9.8% to 0.25% and repeals the alternative minimum tax. The bill also postpones for two years (until 2006) the application of the implicit price deflator adjustment to the taconite production tax rate.

REVENUE ANALYSIS DETAIL

Mining Occupation Tax

- Estimates for the change to the mining occupation tax were based the February 2003 Forecast.
- The revenue impact represents the difference in mining occupation tax collections at the proposed 0.25% tax rate compared to the current 9.8% rate.

Taconite Production Tax

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

Number of Taxpayers Affected: Six companies.

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

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