

MINNESOTA • REVENUE

MINERALS TAX

Fracturing Sand Extraction and Processing Taxes

March 18, 2013

	Yes	No
DOR Administrative Cost/Savings	X	

Department of Revenue

Analysis of H.F. 1336 (Hansen) as introduced

	Fund Impact			
	FY2014	FY2015	FY2016	FY2017
	(000's)			
Fracturing Sand Extraction Tax	\$2,300	\$5,500	\$5,700	\$5,900
Fracturing Sand Processing Tax	\$1,700	\$4,100	\$4,300	\$4,400
General Fund Total	\$4,000	\$9,600	\$10,000	\$10,300
Aggregate Materials Production Tax Rate Increase	\$0	\$0	\$0	\$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

The bill would create two production taxes on silica sand that can be used for the production of oil or gas:

1. An extraction tax of \$1.00 per ton of fracturing sand extracted in Minnesota. The tax is payable by the person extracting the sand and the volume is assumed to be measured after washing.
2. A processing tax of 3% of the market value of the fracturing sand washed in Minnesota. Market value is based on the sale price of the fracturing sand after washing and the tax is payable by the person washing the sand.

The revenues generated from the fracturing sand taxes would be deposited into a special account in the state general fund. The extraction tax revenues would be appropriated to the Environmental Quality Board for the purpose of environmental oversight of the fracturing sand mining industry. The processing tax revenues would be appropriated as follows:

- One-third to the commissioner of transportation to be allocated equally to counties with active fracturing mines for the maintenance of roads;
- One-third to the commissioner of natural resources to acquire land in the area of the state with industrial silica sand resources as scientific or natural areas;
- One-third to the Board of Water and Soil Resources to acquire permanent easements that will prevent commercial fracturing sand mining in wellhead protection areas.

The bill includes creating a registration process for persons engaged in extracting or washing fracturing sand, monthly reporting requirements, and penalties for noncompliance.

The bill would also increase the tax rates imposed for the local aggregate materials production tax.

REVENUE ANALYSIS DETAIL

Fracturing Sand Taxes

- The analysis assumes the taxes would go into effect for fracturing sand extracted or washed after December 31, 2013.
- According to the Minnesota Department of Natural Resources, there are currently eight sand mines producing approximately 5-6 million tons of fracturing sand annually in Minnesota.
- At \$1.00 per ton, the extraction tax is estimated to generate approximately \$5.4 million annually beginning in CY 2014.
- Based on a current market value of \$25 per ton after processing, the fracturing sand processing tax is estimated to generate approximately \$4.0 million annually beginning in CY 2014.
- The first month of fracturing sand tax collection is assumed to be February 2014.
- Proceeds from the fracturing sand taxes would be credited to a special account in the general fund, with revenue appropriations specified in statute.

Aggregate Materials Production Tax

- The increase in aggregate materials production tax rates would not impact the state general fund as revenues would go to local governments imposing the tax.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
[www.revenue.state.mn.us/research_stats/
pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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