CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Mining Royalty Excise Tax and Credit

March 14, 2014

	Yes	No
DOR Administrative Costs/Savings	X	

Excise tax and tax credit only. See separate analysis for other provisions.

Department of Revenue Analysis of H.F. 2629 (Metsa) 1st Engrossment - ***Preliminary Analysis***

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
	(000's)			
Mining Royalty Excise Tax	$0	$6,400	$6,400	$6,400
Mining Royalty Excise Tax Credit	$0	(Unknown)	(Unknown)	(Unknown)
Iron Range School Construction and Improvement Trust Account Net Impact	$0	Unknown	Unknown	Unknown

Effective beginning in tax year 2014 for excise tax and credit provisions.
Effective July 1, 2014, for withholding provisions.

EXPLANATION OF THE BILL

The bill imposes a 5.5% excise tax on mining royalty income received by individuals, estates, trusts, and corporations that are subject to the individual income tax, the fiduciary income tax, or the corporate franchise tax. For partnerships or S corporations with mining royalty income, the tax is imposed in proportion to each partner's or shareholder's distributive share of the entity's income.

The bill creates a nonrefundable tax credit against the income of franchise tax imposed on individuals, estates, trusts, and corporations. The credit would be equal to the amount of royalty excise tax paid for the taxable year.

Payers of mining royalties would be required to deduct and withhold the royalty excise tax. The Commissioner of Revenue would provide tables and forms necessary to approximate the amount of liability less the amount of the tax credit for excise taxes paid.

The amount of excise tax revenue less the amount of excise tax credits allowed would be deposited in a newly-created Iron Range School Construction and Improvement Trust Account. Funds in this account would be used to finance school buildings, technology improvements, and other major construction and improvements for school districts located in the taconite tax relief area.

REVENUE ANALYSIS DETAIL

Mining Royalties Excise Tax

- According to the 2013 Mining Tax Guide, the aggregate amount of private mining royalty income in 2012 was $161 million. Of this amount, the Minnesota Department of Natural Resources collected approximately $44.2 million and would not be subject to the new tax.
- The amount of royalty excise tax on the remaining $116.8 million would be approximately $6.4 million.
- If the tax on trusts significantly reduces distributions to beneficiaries, it is possible that the income taxes paid by beneficiaries would be reduced. This secondary effect is not included in this analysis.
- Tax year impacts are allocated to the following fiscal year.

Mining Royalties Excise Tax Credit

- In 2012, payers of mining royalties withheld Minnesota income taxes from about $4.6 million of royalties. Recipients of these royalties would likely make use of the excise tax credit. Because only a small portion of royalties are subject to withholding, this may only represent some of the royalty excise tax that would be offset by the tax credit.
- The possible expiration of a trust that receives a large portion of Minnesota mining royalties creates significant uncertainty in the amount of tax credit that will be claimed.
- For these reasons, the amount of the royalty excise tax credit is unknown at this time.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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