DEPARTMENT OF REVENUE

MINERALS TAX
Gross Proceeds Tax and Mineral Tax Distributions Modified

April 12, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3208 (Hauschild) as introduced

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Gross Proceeds Tax	$0	$0	$2,000	$1,400
State Distribution of Gross Proceeds Tax to Local Units	$0	$0	$0	($2,000)
Repeal Net Proceeds Tax*	$0	$0	$0	$0
Repeal State Distributions of Net Proceeds Tax to Local Units	$0	$0	$0	$0
Occupational Tax Distributions	($10,900)	($10,400)	($10,500)	($10,500)
General Fund Total	($10,900)	($10,400)	($8,500)	($11,100)
Special Revenue and IRRR Funds	$10,900	$10,400	$10,500	$10,500

Various effective dates.

*The net proceeds tax would first be collected in FY 2029 under current law estimates.

EXPLANATION OF THE BILL

Gross Proceeds Tax

Under current law, the production of non-ferrous minerals is subject to a net proceeds tax of 2.0% in lieu of property taxes. Non-ferrous minerals include copper and nickel; precious metals such as gold, silver, and platinum; and energy resources such as coal, oil, and gas. The net proceeds tax is determined by calculating the gross proceeds from non-ferrous mining minus any allowable expenses, including payroll and equipment. The tax is paid to the state general fund on May 1 of the year following production and distributed to local governmental units and Iron Range Resources and Rehabilitation (IRRR) funds by December 15.

The proposal would make the following changes to the net proceeds tax on non-ferrous mining:

- Replace the current net proceeds tax with a gross proceeds tax of 0.4%.
- Create a $2.0 million minimum tax amount for companies that have obtained all required mining permits but are not actively mining.
- Expand the number of municipalities in the taconite assistance area.
- Change the distribution formula for mining tax proceeds.

Effective beginning for taxable years beginning after December 31, 2022.

Taconite Production Tax Distribution
Under current law, the county road and bridge fund receives 10.525 cents per taxable ton of taconite production for distribution years 2015-2023 and 15.525 cents per taxable ton starting in distribution year 2024 and thereafter. The iron range school consolidation and cooperatively operated school account receives 10 cents per taxable ton of taconite production for distribution years 2015-2023 and 5 cents per taxable ton starting in distribution year 2024 and thereafter.

The proposal would make permanent the 2015-2023 distribution rates to these funds. The iron range school consolidation and cooperatively operated school account would continue to receive a distribution of 10 cents per taxable ton of taconite production and the county road and bridge fund would continue to receive 10.525 cents per taxable ton of taconite production.

For the 2023 distribution only, the proposal would transfer up to $6 million of the excess balance from the taconite property tax relief account to the iron range resources and rehabilitation account.

Occupation Tax Distribution
Under current law, mining occupation tax revenues apportioned to the state general fund are appropriated to various funds. The proposal would make the following changes to distribution:

- Increase the cents per ton going to Iron Range resources and rehabilitation account's special revenue fund from 1.5 to 3.
- Increase the cents per ton going to Iron Range school consolidation account from 6 to 18.
- Create a new 18 cents per ton distribution to the Iron Range resources and rehabilitation account.

Effective beginning for production year 2023.

Solar Cell Incentive Program
Under current law, an incentive program exists for oriented strand board production facilities. Incentive payments are capped at $1.5 million from the state general fund in fiscal year 2025 and $3.0 million in fiscal years 2026 through 2034.

The proposal would change the incentive program from oriented strand board production facilities to solar cell production facilities. The appropriation amounts for incentive payments would be the same.

REVENUE ANALYSIS DETAIL
Gross Proceeds Tax
Non-Ferrous Mineral Production

- There are currently no non-ferrous mining activities in Minnesota. The proposed New Range Copper Nickel mine project near Hoyt Lakes is anticipated to begin production in 2026.
- According to information included in the Environmental Impact Statement from the Minnesota Department of Natural Resources, the New Range Copper Nickel mine would produce approximately 130,000 tons of copper/nickel in a normal production year. Production is projected to last for 20 years.
- The New Range Copper Nickel mine does not yet have all required permits. This estimate assumes the remaining permits will be acquired in 2025.

- Based on the 6-month average market spot prices for copper-nickel, this analysis assumes the gross proceeds in a normal year would total approximately $1 billion. Similar to other commodities sold on the market, mineral prices can be volatile over the short and long terms

Current Law Net Proceeds Tax

- During the first two years of production, it is assumed that deductible expenses would exceed the amount of gross proceeds. Therefore, zero net proceeds tax would be collected following the first two years.
- The amount of deductible expenses is expected to be higher during the initial years of the project when start up and new equipment costs are higher. The amount of deductible expenses as a percentage of gross proceeds is assumed to decline over time.
- Beginning with the third year of production, deductible expenses are assumed to total approximately 90% of gross proceeds, which at a 2.0% tax rate would yield a net proceeds tax of approximately $2.0 million beginning in FY 2029.
- After the first five years of production, the amount of deductible expenses are assumed to total approximately 80% of gross proceeds, which is assumed to be a normal year going forward. The amount of net proceeds tax would be estimated to total approximately $4.0 million in a normal year

Proposed Gross Proceeds Tax with Minimum

- It is assumed New Range Copper Nickel will obtain all necessary permits in 2025 and begin production in 2026.
- With no production in 2025, the tax due in 2026 would be the $2.0 million minimum payment. The $2.0 million would be collected on May 1, 2026 (FY2026) and distributed to local units and IRRR on December 15, 2026 (FY2027).
- The gross proceeds tax would be due after the first year of production because there would be no allowable expenses to deduct.
- The first partial year of production in 2026 would produce an estimated $360 million in gross proceeds, which at a 0.4% tax rate would yield approximately $1.4 million in gross proceeds tax in FY 2027.
- The first full year of production would result in gross proceeds of $1 billion and an estimated gross proceeds tax of approximately $4.0 million beginning in FY 2028.
- Changing the municipalities in the taconite assistance area and the distribution formula changes would not impact the state general fund.

Taconite Production Tax Distribution

- The production tax distribution changes would have no effect on the state general fund; however, they would impact some local taconite distribution funds.
- Making permanent the 2015-2023 production tax distributions rates would shift approximately $1.7 million annually to the iron range school consolidation account and away from the county road and bridge fund.
- For the 2023 distribution only, up to $6 million would be transferred from the taconite property tax relief account to the iron range resources and rehabilitation account.

Occupation Tax Distribution

- Based on forecasted mining occupation tax revenues and taconite production, the amount apportioned from the state general fund to Iron Range resources and rehabilitation accounts would increase from approximately $2.6 million to $13.5 million in FY 2024.
- Current projections estimate occupation tax distributions from the state general fund would exceed occupation tax revenues beginning in FY 2026.

Solar Cell Incentive Program

- With no change in the current law appropriation amounts, there would be no impact to the state general fund. It is assumed the full incentive program payments would be paid out for fiscal years 2025 through 2034.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
https://www.revenue.state.mn.us/revenue-analyses

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