DEPARTMENT OF REVENUE

MINERALS TAX
Taxation of Gas Production
Article 3

April 28, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2530 (Hauschild) 1st engrossment, as proposed to be amended by SCS2530A21

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
	(000's)			
State Funds	$0	$0	Unknown	Unknown

Various effective dates.

EXPLANATION OF THE BILL

The proposal would modify the taxation of gas production and distribution of tax revenues.

Gross Proceeds Tax
Under current law, mining of ores, metals and minerals are subject to the greater of a 0.4% gross proceeds tax or $2.0 million per year.

The bill would add mining gas to the gross proceeds tax. Helium, carbon dioxide, and hydrogen mining would have a gross proceeds tax rate of 7.0% for the first three years of mining and 9.0% in years following. Helium, carbon dioxide, and hydrogen mining would not be subject to an annual minimum gross proceeds tax.

The bill would also create helium relief areas. All school districts with a boundary within 17 miles of a well, mine, structure or building used for gas production would be in the relief area. The helium relief area would be the geographic area of the school districts.

Gross proceeds tax distributions from gas production would be distributed as follows:
- 10% to the Iron Range Resources and Rehabilitation Board (IRRRB)
- 45% to counites, school districts, cities, and towns located in a helium relief area
- 45% to the Helium Property Tax Relief Account

Property Tax
Under current law property used in the business of mining that is subject to the gross proceeds tax is exempt from property tax.

The bill would expand the exemption to include property used in mining, quarrying, or refining gas.

Occupation Tax
Under current law, mining of ores, metals and minerals are subject to a 2.45% occupation tax on taxable income.

The bill would add mining gas to the occupation tax.

Occupation distributions from gas production would be allocated as follows:
- 40% to schools statewide
- 10% to the University of Minnesota
- 25% to counites located in a helium relief area
- 25% to tribes located in a helium relief area

Income/Franchise Tax
Under current law, corporations, individuals, estates and trusts engaged in the business of mining or producing iron ore, or mining, producing or refining other ores, metals, and minerals are exempt from Minnesota income and corporate franchise taxes if the taxpayer's business is subject to the occupation tax. Such taxpayers are still subject to income and corporate franchise taxes on other income or gains from property not used in the business of mining.

Corporate franchise taxpayers subtract from their Minnesota taxable income any income or gains and add to their Minnesota taxable income any losses from the business of mining which are not subject to the franchise tax. Royalties from the business of mining or producing iron ore are not included in this exemption and are subject to income and corporate franchise taxes.

Income and corporate taxpayers are generally required to use the adjusted basis for federal income tax purposes as the basis of their business property, with some exceptions. For assets placed in service before January 1, 1987, taxpayers engaged in the business of mining ores other than iron ore or taconite concentrates and who are subject to the occupation tax must use the occupation tax basis of property used in that business, rather than the adjusted basis.

The bill would expand the mining exemption from income and corporate franchises to include income or gains from the production of gas. It would expand the corporate franchise tax subtraction for mining income and addition for mining losses to include the production of gas. The proposal would also expand the definition of royalties to include mining, producing, or refining ores, metals, and minerals other than iron ore, and to include the production of gas.

Sales and Use Tax
Under current law, capital equipment is exempt from the sales and use tax. Capital equipment is defined as machinery and equipment purchased or leased, and used in Minnesota by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail. The machinery and equipment must be essential to the integrated production process. Integrated production process means a process or series of operations through which tangible personal property is manufactured, fabricated, mined, or refined.

Building materials, equipment, and supplies used for the construction of certain mineral productions facilities are exempt from the sales and use tax.

The bill would expand mining to include metals and gas for the purposes of the capital equipment exemption. The bill would also expand the building materials, equipment, and supplies construction exemption for mineral production facilities to include ore, metal, and gas.

Helium Homestead Credit

The bill would create a helium homestead credit to residential homestead properties located in a helium relief area. The credit amount would be $50 and paid with funds from the Helium Property Tax Relief Account.

REVENUE ANALYSIS DETAIL

- There are currently no gas mining activities in Minnesota.
- The potential Pulsar Helium Topaz Project in Lake County is exploring the mining of helium, carbon dioxide, and hydrogen.
- If production were to begin in calendar year 2027, it is assumed the first year of taxes would occur for fiscal year 2028.
- Due to uncertainty in the annual amount of future gas production, the tax revenues and distribution impacts to state funds are unknown.

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

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