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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 2779

03/12/2012 Authored by Rukavina, Melin and Anzele

The bill was read for the first time and referred to the Committee on Education Finance

03/15/2012 Adoption of Report: Pass and re-referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; minerals; modifying the rates of taxation of nonferrous
1.3 minerals; modifying the distribution of production tax revenues; amending
1.4 Minnesota Statutes 2010, sections 298.018, subdivision 1; 298.28, subdivision 4;
1.5 Minnesota Statutes 2011 Supplement, sections 298.01, subdivision 3; 298.015,
1.6 subdivision 1; 298.28, subdivision 2.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2011 Supplement, section 298.01, subdivision 3, is
1.9 amended to read:

1.10 Subd. 3. **Occupation tax; other ores.** Every person engaged in the business of
1.11 mining, refining, or producing ores, metals, or minerals in this state, except iron ore or
1.12 taconite concentrates, shall pay an occupation tax to the state of Minnesota as provided
1.13 in this subdivision. For purposes of this subdivision, mining includes the application
1.14 of hydrometallurgical processes. The tax is determined in the same manner as the tax
1.15 imposed by section 290.02, except that sections 290.05, subdivision 1, clause (a), 290.17,
1.16 subdivision 4, and 290.191, subdivision 2, do not apply, and the occupation tax must be
1.17 computed by applying to taxable income the rate of ~~2.45~~ 1.45 percent. A person subject
1.18 to occupation tax under this section shall apportion its net income on the basis of the
1.19 percentage obtained by taking the sum of:

1.20 (1) 75 percent of the percentage which the sales made within this state in connection
1.21 with the trade or business during the tax period are of the total sales wherever made in
1.22 connection with the trade or business during the tax period;

1.23 (2) 12.5 percent of the percentage which the total tangible property used by the
1.24 taxpayer in this state in connection with the trade or business during the tax period is of

the total tangible property, wherever located, used by the taxpayer in connection with the trade or business during the tax period; and

(3) 12.5 percent of the percentage which the taxpayer's total payrolls paid or incurred in this state or paid in respect to labor performed in this state in connection with the trade or business during the tax period are of the taxpayer's total payrolls paid or incurred in connection with the trade or business during the tax period.

The tax is in addition to all other taxes.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2011.

Sec. 2. Minnesota Statutes 2011 Supplement, section 298.015, subdivision 1, is amended to read:

Subdivision 1. **Tax imposed.** A person engaged in the business of mining shall pay to the state of Minnesota for distribution as provided in section 298.018 a net proceeds tax equal to ~~two~~ three percent of the net proceeds from mining in Minnesota. The tax applies to all ores, metals, and minerals mined, extracted, produced, or refined within the state of Minnesota except for sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore, and taconite concentrates. The tax is in addition to all other taxes provided for by law.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2011.

Sec. 3. Minnesota Statutes 2010, section 298.018, subdivision 1, is amended to read:

Subdivision 1. **Within taconite assistance area.** The proceeds of the tax paid under sections 298.015 to 298.017 on minerals and energy resources mined or extracted within the taconite assistance area defined in section 273.1341, shall be allocated as follows:

(1) five percent to the city or town within which the minerals or energy resources are mined or extracted or within which the concentrate was produced. If the mining and concentration, or different steps in either process, are carried on in more than one taxing district, the commissioner shall apportion equitably the proceeds among the cities and towns upon the basis of attributing 50 percent of the proceeds of the tax to the operation of mining or extraction, and the remainder to the concentrating plant and to the processes of concentration, and with respect to each thereof giving due consideration to the relative extent of the respective operations performed in each taxing district;

(2) ten percent to the taconite municipal aid account to be distributed as provided in section 298.282;

(3) ten percent to the school district within which the minerals or energy resources are mined or extracted or within which the concentrate was produced. If the mining and concentration, or different steps in either process, are carried on in more than one school district, distribution among the school districts must be based on the apportionment formula prescribed in clause (1);

(4) 20 percent to a group of school districts comprised of those school districts wherein the mineral or energy resource was mined or extracted or in which there is a qualifying municipality as defined by section 273.134, paragraph (b), in direct proportion to school district indexes as follows: for each school district, its pupil units determined under section 126C.05 for the prior school year shall be multiplied by the ratio of the average adjusted net tax capacity per pupil unit for school districts receiving aid under this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year ending prior to distribution to the adjusted net tax capacity per pupil unit of the district. Each district shall receive that portion of the distribution which its index bears to the sum of the indices for all school districts that receive the distributions;

(5) 20 percent to the county within which the minerals or energy resources are mined or extracted or within which the concentrate was produced. If the mining and concentration, or different steps in either process, are carried on in more than one county, the commissioner shall apportion equitably the proceeds among the counties upon the basis of attributing 50 percent of the proceeds of the tax to the operation of mining or extraction, and the remainder to the concentrating plant and to the processes of concentration, and with respect to each thereof giving due consideration to the relative extent of the respective operations performed in each county, provided that any county receiving distributions under this clause shall pay one percent of its proceeds to the Range Association of Municipalities and Schools;

(6) 20 percent to St. Louis County acting as the counties' fiscal agent to be distributed as provided in sections 273.134 to 273.136;

(7) five percent to the Iron Range Resources and Rehabilitation Board for the purposes of section 298.22;

(8) ~~five~~ three percent to the Douglas J. Johnson economic protection trust fund; and

(9) ~~five~~ seven percent to the taconite environmental protection fund.

The proceeds of the tax shall be distributed on July 15 each year.

Sec. 4. Minnesota Statutes 2011 Supplement, section 298.28, subdivision 2, is amended to read:

Subd. 2. **City or town where quarried or produced.** (a) 4.5 cents per gross ton of merchantable iron ore concentrate, hereinafter referred to as "taxable ton," plus the amount provided in paragraph (c), must be allocated to the city or town in the county in which the lands from which taconite was mined or quarried were located or within which the concentrate was produced. If the mining, quarrying, and concentration, or different steps in either thereof are carried on in more than one taxing district, the commissioner shall apportion equitably the proceeds of the part of the tax going to cities and towns among such subdivisions upon the basis of attributing 50 percent of the proceeds of the tax to the operation of mining or quarrying the taconite, and the remainder to the concentrating plant and to the processes of concentration, and with respect to each thereof giving due consideration to the relative extent of such operations performed in each such taxing district. The commissioner's order making such apportionment shall be subject to review by the Tax Court at the instance of any of the interested taxing districts, in the same manner as other orders of the commissioner.

(b) ~~Four~~ Nine cents per taxable ton shall be allocated to cities and organized townships affected by mining because their boundaries are within three miles of a taconite mine pit that has been actively mined in at least one of the prior three years. If a city or town is located near more than one mine meeting these criteria, the city or town is eligible to receive aid calculated from only the mine producing the largest taxable tonnage. When more than one municipality qualifies for aid based on one company's production, the aid must be apportioned among the municipalities in proportion to their populations. ~~Of the amounts distributed under this paragraph to each municipality, one-half must be used for infrastructure improvement projects, and one-half must be used for projects in which two or more municipalities cooperate. Each municipality that receives a distribution under this paragraph must report annually to the Iron Range Resources and Rehabilitation Board and the commissioner of Iron Range resources and rehabilitation on the projects involving cooperation with other municipalities.~~

(c) The amount that would have been computed for the current year under Minnesota Statutes 2008, section 126C.21, subdivision 4, for a school district shall be distributed to the cities and townships within the school district in the proportion that their taxable net tax capacity within the school district bears to the taxable net tax capacity of the school district for property taxes payable in the year prior to distribution.

EFFECTIVE DATE. This section is effective beginning with the 2013 distribution.

Sec. 5. Minnesota Statutes 2010, section 298.28, subdivision 4, is amended to read:

Subd. 4. **School districts.** (a) ~~23.15~~ 26.15 cents per taxable ton, plus the increase provided in paragraph (d), less the amount that would have been computed under Minnesota Statutes 2008, section 126C.21, subdivision 4, for the current year for that district, must be allocated to qualifying school districts to be distributed, based upon the certification of the commissioner of revenue, under paragraphs (b), (c), and (f).

(b)(i) 3.43 cents per taxable ton must be distributed to the school districts in which the lands from which taconite was mined or quarried were located or within which the concentrate was produced. The distribution must be based on the apportionment formula prescribed in subdivision 2.

(ii) ~~Four~~ Seven cents per taxable ton from each taconite facility must be distributed to each affected school district for deposit in a fund dedicated to building maintenance and repairs, as follows:

(1) proceeds from Keewatin Taconite or its successor are distributed to Independent School Districts Nos. 316, Coleraine, and 319, Nashwauk-Keewatin, or their successor districts;

(2) proceeds from the Hibbing Taconite Company or its successor are distributed to Independent School Districts Nos. 695, Chisholm, and 701, Hibbing, or their successor districts;

(3) proceeds from the Mittal Steel Company and Minntac or their successors are distributed to Independent School Districts Nos. 712, Mountain Iron-Buhl, 706, Virginia, 2711, Mesabi East, and 2154, Eveleth-Gilbert, or their successor districts;

(4) proceeds from the Northshore Mining Company or its successor are distributed: (i) three-sevenths each to Independent School Districts Nos. 2142, St. Louis County, and 381, Lake Superior, or their successor districts; and

(ii) one-seventh to Independent School District No. 696, Ely; and

(5) proceeds from United Taconite or its successor are distributed to Independent School Districts Nos. 2142, St. Louis County, and 2154, Eveleth-Gilbert, or their successor districts.

Revenues that are required to be distributed to more than one district shall be apportioned according to the number of pupil units identified in section 126C.05, subdivision 1, enrolled in the second previous year.

(c)(i) 15.72 cents per taxable ton, less any amount distributed under paragraph (e), shall be distributed to a group of school districts comprised of those school districts which qualify as a tax relief area under section 273.134, paragraph (b), or in which there is a qualifying municipality as defined by section 273.134, paragraph (a), in direct proportion

to school district indexes as follows: for each school district, its pupil units determined under section 126C.05 for the prior school year shall be multiplied by the ratio of the average adjusted net tax capacity per pupil unit for school districts receiving aid under this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year ending prior to distribution to the adjusted net tax capacity per pupil unit of the district. Each district shall receive that portion of the distribution which its index bears to the sum of the indices for all school districts that receive the distributions.

(ii) Notwithstanding clause (i), each school district that receives a distribution under sections 298.018; 298.23 to 298.28, exclusive of any amount received under this clause; 298.34 to 298.39; 298.391 to 298.396; 298.405; or any law imposing a tax on severed mineral values after reduction for any portion distributed to cities and towns under section 126C.48, subdivision 8, paragraph (5), that is less than the amount of its levy reduction under section 126C.48, subdivision 8, for the second year prior to the year of the distribution shall receive a distribution equal to the difference; the amount necessary to make this payment shall be derived from proportionate reductions in the initial distribution to other school districts under clause (i). If there are insufficient tax proceeds to make the distribution provided under this paragraph in any year, money must be transferred from the taconite property tax relief account in subdivision 6, to the extent of the shortfall in the distribution.

(d) Any school district described in paragraph (c) where a levy increase pursuant to section 126C.17, subdivision 9, was authorized by referendum for taxes payable in 2001, shall receive a distribution of 21.3 cents per ton. Each district shall receive \$175 times the pupil units identified in section 126C.05, subdivision 1, enrolled in the second previous year or the 1983-1984 school year, whichever is greater, less the product of 1.8 percent times the district's taxable net tax capacity in the second previous year.

If the total amount provided by paragraph (d) is insufficient to make the payments herein required then the entitlement of \$175 per pupil unit shall be reduced uniformly so as not to exceed the funds available. Any amounts received by a qualifying school district in any fiscal year pursuant to paragraph (d) shall not be applied to reduce general education aid which the district receives pursuant to section 126C.13 or the permissible levies of the district. Any amount remaining after the payments provided in this paragraph shall be paid to the commissioner of Iron Range resources and rehabilitation who shall deposit the same in the taconite environmental protection fund and the Douglas J. Johnson economic protection trust fund as provided in subdivision 11.

Each district receiving money according to this paragraph shall reserve the lesser of the amount received under this paragraph or \$25 times the number of pupil units served

7.1 in the district. It may use the money for early childhood programs or for outcome-based
7.2 learning programs that enhance the academic quality of the district's curriculum. The
7.3 outcome-based learning programs must be approved by the commissioner of education.

7.4 (e) There shall be distributed to any school district the amount which the school
7.5 district was entitled to receive under section 298.32 in 1975.

7.6 (f) Four cents per taxable ton must be distributed to qualifying school districts
7.7 according to the distribution specified in paragraph (b), clause (ii), and two cents per
7.8 taxable ton must be distributed according to the distribution specified in paragraph
7.9 (c). These amounts are not subject to sections 126C.21, subdivision 4, and 126C.48,
7.10 subdivision 8.

7.11 **EFFECTIVE DATE.** This section is effective beginning with the 2013 distribution.