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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. **416**

01/29/2015 Authored by Anzelc, Metsa, Melin, Dill, Kresha and others

The bill was read for the first time and referred to the Committee on Mining and Outdoor Recreation Policy

03/09/2015 Adoption of Report: Amended and re-referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; minerals; reinstating the tax incentive for direct reduced iron;
1.3 modifying apportionment of occupation taxes; amending Minnesota Statutes
1.4 2014, sections 298.17; 298.24, subdivision 1.

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

1.6 Section 1. Minnesota Statutes 2014, section 298.17, is amended to read:

1.7 **298.17 OCCUPATION TAXES TO BE APPORTIONED.**

1.8 (a) All occupation taxes paid by persons, copartnerships, companies, joint stock
1.9 companies, corporations, and associations, however or for whatever purpose organized,
1.10 engaged in the business of mining or producing iron ore or other ores, when collected
1.11 shall be apportioned and distributed in accordance with the Constitution of the state of
1.12 Minnesota, article X, section 3, in the manner following: 90 percent shall be deposited
1.13 in the state treasury and credited to the general fund of which four-ninths shall be used
1.14 for the support of elementary and secondary schools; and ten percent of the proceeds of
1.15 the tax imposed by this section shall be deposited in the state treasury and credited to the
1.16 general fund for the general support of the university.

1.17 (b) Of the money apportioned to the general fund by this section: (1) there is
1.18 annually appropriated and credited to the mining environmental and regulatory account
1.19 in the special revenue fund an amount equal to the greater of \$1,500,000 or that which
1.20 would have been generated by a 2-1/2 cent tax imposed by section 298.24 on each taxable
1.21 ton produced in the preceding calendar year. Money in the mining environmental and
1.22 regulatory account is appropriated annually to the commissioner of natural resources
1.23 to fund agency staff to work on environmental issues and provide regulatory services
1.24 for ferrous and nonferrous mining operations in this state. Payment to the mining

environmental and regulatory account shall be made by July 1 annually. The commissioner of natural resources shall execute an interagency agreement with the Pollution Control Agency to assist with the provision of environmental regulatory services such as monitoring and permitting required for ferrous and nonferrous mining operations; (2) there is annually appropriated and credited to the Iron Range Resources and Rehabilitation Board account in the special revenue fund an amount equal to that which would have been generated by a 1.5 cent tax imposed by section 298.24 on each taxable ton produced in the preceding calendar year, to be expended for the purposes of section 298.22; and (3) there is annually appropriated and credited to the Iron Range Resources and Rehabilitation Board account in the special revenue fund for transfer to the Iron Range school consolidation and cooperatively operated school account under section 298.28, subdivision 7a, an amount equal to that which would have been generated by a six cent tax imposed by section 298.24 on each taxable ton produced in the preceding calendar year. Payment to the Iron Range Resources and Rehabilitation Board account shall be made by May 15 annually.

(c) The money appropriated pursuant to paragraph (b), clause (2), shall be used (i) to provide environmental development grants to local governments located within any county in region 3 as defined in governor's executive order number 60, issued on June 12, 1970, which does not contain a municipality qualifying pursuant to section 273.134, paragraph (b), or (ii) to provide economic development loans or grants to businesses located within any such county, provided that the county board or an advisory group appointed by the county board to provide recommendations on economic development shall make recommendations to the Iron Range Resources and Rehabilitation Board regarding the loans. Payment to the Iron Range Resources and Rehabilitation Board account shall be made by May 15 annually.

(d) Of the money allocated to Koochiching County, one-third must be paid to the Koochiching County Economic Development Commission.

EFFECTIVE DATE. This section is effective beginning with the 2015 production year.

Sec. 2. Minnesota Statutes 2014, section 298.24, subdivision 1, is amended to read:

Subdivision 1. **Imposed; calculation.** (a) For concentrate produced in 2013, there is imposed upon taconite and iron sulphides, and upon the mining and quarrying thereof, and upon the production of iron ore concentrate therefrom, and upon the concentrate so produced, a tax of \$2.56 per gross ton of merchantable iron ore concentrate produced therefrom. The tax is also imposed upon other iron-bearing material.

(b) For concentrates produced in 2014 and subsequent years, the tax rate shall be equal to the preceding year's tax rate plus an amount equal to the preceding year's tax rate multiplied by the percentage increase in the implicit price deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. "Implicit price deflator" means the implicit price deflator for the gross domestic product prepared by the Bureau of Economic Analysis of the United States Department of Commerce.

(c) An additional tax is imposed equal to three cents per gross ton of merchantable iron ore concentrate for each one percent that the iron content of the product exceeds 72 percent, when dried at 212 degrees Fahrenheit.

(d) The tax on taconite and iron sulphides shall be imposed on the average of the production for the current year and the previous two years. The rate of the tax imposed will be the current year's tax rate. This clause shall not apply in the case of the closing of a taconite facility if the property taxes on the facility would be higher if this clause and section 298.25 were not applicable. The tax on other iron-bearing material shall be imposed on the current year production.

(e) If the tax or any part of the tax imposed by this subdivision is held to be unconstitutional, a tax of \$2.56 per gross ton of merchantable iron ore concentrate produced shall be imposed.

(f) Consistent with the intent of this subdivision to impose a tax based upon the weight of merchantable iron ore concentrate, the commissioner of revenue may indirectly determine the weight of merchantable iron ore concentrate included in fluxed pellets by subtracting the weight of the limestone, dolomite, or olivine derivatives or other basic flux additives included in the pellets from the weight of the pellets. For purposes of this paragraph, "fluxed pellets" are pellets produced in a process in which limestone, dolomite, olivine, or other basic flux additives are combined with merchantable iron ore concentrate. No subtraction from the weight of the pellets shall be allowed for binders, mineral and chemical additives other than basic flux additives, or moisture.

(g)(1) Notwithstanding any other provision of this subdivision, for the first two years of a plant's commercial production of direct reduced ore from ore mined in this state, no tax is imposed under this section. As used in this paragraph, "commercial production" is production of more than 50,000 tons of direct reduced ore in the current year or in any prior year, "noncommercial production" is production of 50,000 tons or less of direct reduced ore in any year, and "direct reduced ore" is ore that results in a product that has an iron content of at least ~~75 percent~~ 67 percent and silica plus alumina content of no greater than three percent. For the third year of a plant's commercial production of direct reduced ore, the rate to be applied to direct reduced ore is 25 percent of the rate otherwise determined

under this subdivision. For the fourth commercial production year, the rate is 50 percent of the rate otherwise determined under this subdivision; for the fifth commercial production year, the rate is 75 percent of the rate otherwise determined under this subdivision; and for all subsequent commercial production years, the full rate is imposed.

(2) Subject to clause (1), production of direct reduced ore in this state is subject to the tax imposed by this section, but if that production is not produced by a producer of taconite, iron sulfides, or other iron-bearing material, the production of taconite, iron sulfides, or other iron-bearing material, that is consumed in the production of direct reduced iron in this state is not subject to the tax imposed by this section on taconite, iron sulfides, or other iron-bearing material.

(3) Notwithstanding any other provision of this subdivision, no tax is imposed on direct reduced ore under this section during the facility's noncommercial production of direct reduced ore. ~~The taconite or iron sulphides consumed in the noncommereial production of direct reduced ore is subject to the tax imposed by this section on taconite and iron sulphides.~~ Three-year average production of direct reduced ore does not include production of direct reduced ore in any noncommercial year. Three-year average production for a direct reduced ore facility that has noncommercial production is the average of the commercial production of direct reduced ore for the current year and the previous two commercial years.

~~(4) This paragraph applies only to plants for which all environmental permits have been obtained and construction has begun before July 1, 2008.~~

EFFECTIVE DATE. This section is effective for taxes based on concentrate produced in 2015 and thereafter.