

# HOUSE RESEARCH

## Bill Summary

**FILE NUMBER:** H.F. 974 **DATE:** March 14, 2011  
**Version:** With author's amendment (H0974A1)  
**Authors:** Melin and others  
**Subject:** Minerals taxation  
**Analyst:** Joel Michael, joel.michael@house.mn

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: [www.house.mn/hrd](http://www.house.mn/hrd).

### Overview

This bill decreases the occupation tax rate on the mining of non-ferrous minerals and increases the net proceeds tax rate by an offsetting amount. This will decrease state revenues and increase the local revenues that are in lieu of the property tax. Since none of this mining is now occurring, there is no current fiscal effect of these changes.

The bill also modifies the formula for distributing revenues from the net proceeds tax to local units of government so that the city/town and school district shares for the units containing the mine will be shared on an equal basis with the governmental units containing the processing plant (if different from the unit with the mine). It also repeals the escalator clause for distribution of taconite production tax revenues to towns in the tax relief area.

- 1** **Occupation tax rate.** Reduces the rate of the occupation tax on minerals, other than iron ore and taconite, from 2.45 percent to 1.1 percent.

**Background.** The occupation tax on mining is imposed in lieu of the corporate franchise or income tax. The tax is computed in a manner similar to the corporate franchise tax, except a different apportionment mechanism is used, income is computed separately for each type of mineral, and the only deductions allowed are for expenses necessary to convert raw ores to marketable quality. Revenues from the tax are paid to the state's general fund.

- 2** **Net proceeds tax rate.** Increases the rate of the net proceeds tax from 2 percent to 3.35 percent. In conjunction with the change in section 1, the combined occupation and net proceeds tax rates will remain 4.45 percent.

**Background.** The net proceeds tax is computed in a manner similar to the occupation tax. It is based on the net proceeds derived from mining, as compared with the net income from mining under the occupation, with minor differences in the allowable deductions and calculation of the net. The tax revenues from the tax are paid to local governments and are intended to be in lieu of property taxes (similar to the taconite production tax), although there isn't a clear property tax exemption for the mines or production facilities (as there are for taconite facilities).

- 3** **Distribution of net proceeds tax.** Modifies the distribution of the net proceeds tax in the following

ways:

- The five-percent share under present law for the city or town in which the mine is located is divided between the cities or towns in which the mine and concentration or processing plant are located. The commissioner of revenue will make this split on an equal basis between the governmental units with mining versus the concentration or processing facilities. If multiple jurisdictions are involved (e.g., a mine in two towns or cities) the commissioner is to give "due consideration to the relative extent of such operations performed in each taxing district." This language parallels the language used for allocating taconite production tax revenue. The author's amendment deletes the authority to appeal these decisions to the tax court.
- Makes similar changes to the 10-percent share for the school district in which the mine is located. This also parallels the language in the statute governing apportionment of taconite production tax revenue to the schools in which the mine and concentration plant are located.
- Requires the county to pay one percent of its share to the Range Association of Municipalities and Schools.
- Reduces the five-percent share for the Douglas J. Johnson economic protection fund to three percent.
- Increases the five-percent share for the taconite environmental protection fund to 7 percent.

**4 Taconite production tax distribution.** Eliminates the annual escalator (keyed to the indexing of the production tax rate) for the three-cent per ton distribution to towns in the taconite tax relief area.

**5** [Deleted by the author's amendment.]