HOUSE RESEARCH
Bill Summary

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Subject: Establishing time periods when the production tax is not imposed on direct reduced ore

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Overview

Establishes two time periods for when the production tax will not be imposed on direct reduced ore-one time-period during the experimental/research phase and a second time-period once the facility starts commercial production of the ore. Defines "commercial" production. Effective for direct reduced ore produced after the date of final enactment.

Section

1 **Production tax; direct reduced ore.** Clarifies the time periods before the production tax is imposed on the direct reduced ore by (1) providing that no tax is imposed during the first two years of the facility's "commercial production" period (defines "commercial production" as production of more than 50,000 tons per year) and, (2) provides that no tax is imposed during the facility's noncommercial production of direct reduced ore (i.e., during the experimental/research phase).

There is nothing in law that specifically addresses the tax during the experimental/research phase of a project. This bill clarifies the law by (1) defining "commercial production" as 50,000 tons per year; (2) providing that for the two year time-period after the commercial production level is reached, the production tax will not be imposed on the direct reduced ore; and (3) does not impose the tax on the direct reduced ore during the non-commercial time period-when the pilot plant is doing its research and development.

Section

This bill addresses a facility in Silver Bay (the old Reserve plant; which is now called North Shore Mining) that is in the experimental stages of producing iron nuggets (pilot plant). The company would like some additional time while in the experimental/research phase of the project so that they will be able to use the 2 years of exemption from the tax (in current law) when the facility is in commercial production of the ore, and not use up that time during the research phase.

However, it is important to note that the iron concentrate used to produce the direct reduced ore (i.e., the iron nuggets), is being taxed in the normal manner like other taconite concentrates and pellets. North Shore Mining is paying this tax. After the facility in Silver Bay has been doing commercial production (as defined in the bill) for two years, the iron concentrate used to produce the iron nuggets will no longer be taxed, and the direct reduced ore will then become subject to the statutory phased-up tax (i.e., 25% in the 3rd year, 50% in the 4th year, 75% in the 5th year, and 100% beginning in 6th year). The author's amendment clarifies that once the facility has reached the 50,000 tons per year, the tax will continue to apply even if the facility in some future year does not produce 50,000 tons in that year.

Effective for direct reduced ore produced after the date of final enactment.