STATE OF MINNESOTA

IN SUPREME COURT

A20-0977

Tax Court — Anderson, J.

Hibbing Taconite Company, J.V., et al.,

Respondents,

vs.

Filed: April 21, 2021
Office of Appellate Courts

Commissioner of Revenue,

Relator.

Charles F. Webber, Michael J. Kaupa, Faegre Drinker Biddle & Reath, LLP, Minneapolis, Minnesota, for respondents.

Keith Ellison, Attorney General, Jennifer Kitchak, Kristine K. Nogosek, John M. O'Mahoney, Assistant Attorneys General, Saint Paul, Minnesota, for relator.

S Y L L A B U S

The statutory directive of Minn. Stat. § 298.01, subd. 4 (2012), requiring that a taxpayer's occupation tax liability be determined "in the same manner" as the franchise tax imposed on corporations, does not require respondents to reduce a deduction allowed under federal law by the percentage that must be taken by corporations.

Affirmed.

O P I N I O N

ANDERSON, Justice.

In this appeal, we must determine the proper computation of the Minnesota occupation tax, specifically as that tax relates to a deduction provided under federal law. At issue is the meaning of the statutory phrase "determined in the same manner" as the franchise tax that Minnesota imposes on corporations, *see* Minn. Stat. § 298.01, subd. 4 (2012), and whether this phrase requires respondents Hibbing Taconite Company, J.V. and United Taconite, LLC (collectively Taxpayers), when calculating their occupation tax liability, to reduce a deduction claimed under federal law by the percentage that federal law imposes on corporations. The Minnesota Tax Court concluded that, under the plain meaning of the statutory phrase at issue here, the Taxpayers were entitled to compute their Minnesota occupation tax liability without taking the percentage reduction imposed on corporations for the federal deduction at issue. Because we hold that the plain meaning of the language in subdivision 4 of section 298.01 does not require the Taxpayers to reduce the amount of the claimed federal deduction by the percentage imposed on corporations, we affirm the decision of the Minnesota Tax Court.

FACTS

The facts are stipulated and undisputed. The Taxpayers are "engaged in the business of mining," and thus both are subject to the Minnesota occupation tax.[1] *See* Minn. Stat.

[1] Hibbing Taconite Company is a joint venture that owns and operates a taconite mine near Hibbing. United Taconite is a limited liability company that owns and operates a taconite mine near Eveleth.

§ 298.01, subd. 4 (2012).[2] The occupation tax, which is imposed on taxable income, "is determined in the same manner as the tax imposed by section 290.02," *id.*, and includes some, although not all, of the modifications to income set out in section 290.01, subdivisions 19c and 19d, *see id.*, subd. 4b (2012) (excluding some modifications to income allowed under section 290.01). Minnesota Statutes § 290.02 (2012), imposes a franchise tax on the taxable income of corporations with contacts in this state. It is undisputed that the Taxpayers are not corporations; both are classified as partnerships for state and federal tax purposes.

The Taxpayers timely filed their Minnesota occupation tax returns for tax years 2012 and 2013. In computing the income subject to the occupation tax for these years, the Taxpayers claimed a deduction allowed under federal law as a "reasonable allowance for depletion," I.R.C. § 611(a); they did not reduce that deduction by the percentage that federal law requires corporations to take, referred to here as the federal percentage depletion deduction. *See* I.R.C. § 291(a)(2) (requiring corporations to reduce the depletion deduction by 20 percent).[3]

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[2] The tax years at issue are 2012 and 2013. Although some of the relevant tax laws were amended in 2013, to avoid confusion and for consistency with the approach used by the tax court, we cite only to the 2012 version of the statutes at issue.

[3] The depletion deduction is further calculated according to I.R.C. § 613, and the percentage reduction is calculated as explained in I.R.C. § 291(a)(2). Minnesota law requires corporations to modify federal taxable income by adding back the amount taken as a federal percentage depletion deduction. Minn. Stat. § 290.01, subd. 19c(9). For Minnesota's occupation tax, a taxpayer does not use the modification in subdivision 19c(9) in calculating the income subject to the tax. *See* Minn. Stat. § 298.01, subd. 4c(a) (2012)

In September 2017, following an audit, the Commissioner of the Minnesota Department of Revenue (Commissioner) issued a Notice of Change in Tax to the Taxpayers. In the notice, the Commissioner adjusted the Taxpayers' 2012 and 2013 occupation tax liability by applying the federal 20-percent reduction to their claimed federal depletion tax deduction—in other words, generally, the Commissioner reduced the amount of the deduction, thus increasing the amount of taxable income, which in turn resulted in additional Minnesota occupation tax owed for those tax years. The Commissioner reasoned that the statutory phrase "determined in the same manner as the tax imposed by section 290.02" contained in Minn. Stat. § 298.01, subd. 4, requires taxpayers subject to the occupation tax to be treated the same as corporations subject to the corporate franchise tax under Minn. Stat. § 290.02. Because corporations are subject to tax under Minn. Stat. § 290.02, and because corporations are required by federal law to reduce a depletion tax deduction by 20 percent, the Commissioner concluded that the Taxpayers were required to reduce their claimed federal depletion deduction by 20 percent as well. *See* I.R.C. § 291(a)(2) (imposing a 20 percent reduction of the depletion deduction).

After the Commissioner's notice was affirmed on administrative appeal, the Taxpayers each appealed to the Minnesota Tax Court. The two appeals were consolidated and the Taxpayers moved for summary judgment, which the tax court granted. The tax

(stating that "the provisions of section 290.01" subdivision 19c(9) are "not used to determine taxable income"). Therefore, in general terms, while the federal deduction is added back when calculating taxable income for the corporate franchise tax, it remains a deduction—a reduction of taxable income—for the occupation tax.

court concluded that the legislative direction to determine the occupation tax liability "in the same manner as the tax imposed by section 290.02" "is to be understood as procedural rather than as substantive." *Hibbing Taconite Co. v. Comm'r of Revenue*, Nos. 9266-R & 9267-R, 2020 WL 2843472 at *4–5 (Minn. T.C. May 27, 2020). The tax court also concluded that, because the Taxpayers were not required to add the federal depletion deduction back to their income in calculating their occupation tax liability, "they were entitled to retain the full deductions they actually took, without 20% reductions." *Id*. at *5.

The Commissioner filed a writ of certiorari with our court, appealing the decision of the tax court.

ANALYSIS

The Legislature requires the state's occupation tax to be "determined in the same manner as the tax imposed by section 290.02." *See* Minn. § 298.01, subd. 4 (2012). There is no dispute here that the Taxpayers are entitled to claim the federal depletion deduction in calculating the income subject to Minnesota's occupation tax. The dispute is simply over the amount of that deduction: is it with or without the 20-percent reduction that federal law imposes on corporations.

The Commissioner argues that because only corporations are subject to the tax imposed by Minn. Stat. § 290.02, and because corporations are required under federal law to apply a 20-percent reduction to any claimed depletion tax deduction, the Legislature intended that all taxpayers claiming this deduction under section 298.01 be treated the same. In other words, the Commissioner asserts that the directive to determine the occupation tax "in the same manner as the tax imposed by section 290.02" requires the

Taxpayers, even though not organized as corporations, to nonetheless apply the same reduction to their claimed federal depletion deduction that a corporation would apply—20 percent—for tax years 2012 and 2013.

The Taxpayers argue that the tax court correctly concluded that the statutory phrase "[t]he tax is determined in the same manner as the tax imposed by section 290.02" merely requires the occupation tax be computed using the same method or procedure of computation as the corporate franchise tax, rather than requiring the same treatment of noncorporations and corporations. The Taxpayers also argue that the Commissioner ignores the plain language of the federal percentage depletion tax deduction provision, I.R.C. § 291(a), which applies the 20-percent reduction to any claimed federal percentage depletion tax deduction only "in the case of a corporation." Because, the Taxpayers argue, it is undisputed that they are not corporations, the tax court correctly concluded that they are not required to reduce the amount of their claimed deductions by 20 percent.

We review the tax court's interpretation of statutes de novo. *Manpower, Inc. v. Comm'r of Revenue*, 724 N.W.2d 526, 528 (Minn. 2006). On questions of statutory interpretation, our objective is to effectuate the Legislature's intent. *Chapman v. Comm'r of Revenue*, 651 N.W.2d 825, 831 (Minn. 2002); *see also* Minn. Stat. § 645.16 (2020) ("The object of all interpretation and construction of laws is to ascertain and effectuate the intention of the legislature."). We "read a statute as a whole and give effect to all its provisions." *Waters v. Comm'r of Revenue*, 920 N.W.2d 613, 615 (Minn. 2018) (quoting *State v. Henderson*, 907 N.W.2d 623, 625 (Minn. 2018)).

We begin with the words of the statute. The Legislature did not provide any specific clues to the meaning of the statutory phrase "[t]he tax is determined in the same manner as the tax imposed by section 290.02" contained in Minn. Stat. § 298.01, subd 4. The parties and the tax court focused primarily on two words in this phrase: *determine* and *manner*. Accordingly, we consult other interpretive tools to ascertain the plain meaning of these terms, including dictionary definitions. *See Waters*, 920 N.W.2d at 615.

One definition ascribed to the word "determine" is "to find out or come to a decision about by investigation, reasoning, or calculation." *Merriam–Webster's Collegiate Dictionary* 340 (11th ed. 2014). Another source defines "determine" as "to settle or decide (a dispute, question, etc.) by an authoritative or conclusive decision." *The Random Dictionary of the English Language* 542 (2d ed. 1987). Lastly, *Black's Law Dictionary* defines "determine" as "[t]he act of finding the precise level, amount, or cause of something." *Determine, Black's Law Dictionary* (11th ed. 2019). To summarize, these unambiguous and synonymous definitions of "determine" mean the process of making a decision.

Next, the term "manner" is defined as "a mode of procedure or way of acting." *Merriam–Webster's Collegiate Dictionary* 756. *Random House* defines "manner" as "a way of doing, being done, or happening mode of action, occurrence" and "mode of action, occurrence." *The Random Dictionary of the English Language* 1170. These two

definitions of the term "manner" unambiguously and synonymously mean a particular method or procedure.[4]

We now return to the specific language at issue. Minnesota Statutes § 298.01, subd. 4, states: "The tax is determined in the same manner as the tax imposed by section 290.02." This language plainly mandates that the occupation tax be ascertained using the same method or procedure used for ascertaining the tax liability imposed under Minn. Stat. § 290.02.[5]

The Commissioner argues that, by imposing the occupation tax on a single, but broad, class—persons—and then directing those persons to determine their occupation tax liability "in the same manner" as corporations, the Legislature "erased the distinction" between types of entities. *See* Minn. Stat. § 298.001, subd. 3 (2012) (defining "person" by including partnerships and corporations, among others); *see also* Minn. Stat. § 298.01, subd. 4 (imposing the occupation tax on "[a] person engaged in the business of mining").

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[4] The tax court consulted the *American Heritage Dictionary* to determine the plain language meaning of the terms "determine" and "manner" as well. *See Hibbing Taconite Co.*, 2020 WL 2843472 at *4. The tax court deemed the term "determine" to mean "[t]o establish or ascertain definitely, as after consideration, investigation, or calculation" and the term "manner" to mean "a way of doing something" and concluded that the statutory phrase at issue means "to ascertain by calculating in the same way." *Id*. Our plain language analysis tracks with the tax court's analysis.

[5] The Taxpayers rely on decisions from other jurisdictions, as well as a decision from our court, *State v. Rock Island Motor Transit Co.*, in which the Taxpayers claim that similar phrasing was at issue. *See* 295 N.W. 519, 524 (Minn. 1940) (considering statutory language authorizing an appeal "in the same manner" as appeals in other civil cases). Because the statutory language at issue in these cases did not address tax calculation issues as between two different tax types, and because we conclude that the plain meaning of the words in the phrase at issue here are unambiguous, we do not rely on these decisions.

In other words, the Commissioner contends that the Legislature intended all entities subject to the occupation tax be treated as corporations regardless of actual legal entity status. Thus, the Commissioner asks us to interpret the language at issue here—"the tax is determined in the same manner as the tax imposed under section 290.02"—to mean, "determined *as if the taxpayer* were a corporation."

We reject this interpretation for two reasons. First, the Commissioner incorrectly looks to *who* is liable for the tax—persons—and then incompletely analyzes the statutory phrase at issue here. As previously stated, we give effect to *all* provisions in a statute. *See Waters*, 920 N.W.2d at 615. The Commissioner's argument depends heavily on the language "determined in the same manner as the tax imposed by section 290.02." This approach improperly narrows the focus and fails to give effect to the controlling noun here—"The tax." *See* Minn. Stat. § 645.16 (favoring a construction that gives effect to all provisions). When read in its entirety, the statutory phrase at issue provides: "*The tax* is determined in the same manner as the tax imposed by section 290.02." Minn. Stat. 298.01, subd. 4 (emphasis added). The Legislature's use of "The tax" plainly shows that the object of the phrase is the occupation tax, not the entity status of the parties subject to that tax.

Second, the conclusion that the Commissioner draws from linking who is liable for the tax—a "person"—with the tax determination method—"the same manner as in section 290.02"—is not reasonably supported by the text of Minn. Stat. 298.01, subd. 4. Nothing in the plain language of the text provides a reasonable basis to conclude that the Legislature intended to ignore the entity status for occupation tax purposes. To the contrary, the Legislature directed the Taxpayers *not* to follow the approach that corporations use under

section 290.01 when it comes to the federal depletion deduction; that is, clause 9 of subdivision 19c, which directs corporations to add the federal depletion deduction back to federal taxable income, is "not used to determine taxable income" when calculating occupation tax liability. Minn. Stat. § 298.01, subd. 4c(a). Surely the Legislature would have used more specific language to direct persons subject to the occupation tax to reduce that deduction by the same percentage used by corporations under federal law, even though it had decided to treat these taxpayers differently from how corporations are treated under clause 9 of subdivision 19c. To interpret the statutory language as the Commissioner urges us to do would require that we assume that the Legislature intended for the occupation tax to be "determined *for purposes of the federal percentage depletion deduction as if the taxpayer is a corporation*." Such an interpretation would require us to add words to the statute, which we cannot do. *State v. Carufel*, 783 N.W.2d 539, 545 (Minn. 2010) (stating that we "cannot add words to a statute not supplied by the legislature.")

CONCLUSION

For the foregoing reasons, we affirm the decision of the tax court.[6]

Affirmed.

[6] Because our holding rests solely on the interpretation of unambiguous language in state statute, we do not reach the Taxpayers' argument that the plain meaning of the federal provisions implicated here—including I.R.C. § 291(a)(2)—also permits them to claim their federal percentage depletion tax deduction without applying a 20-percent reduction.