CHAPTER 501—S. F. No. 1282

[Coded in Part]

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1957, Sections 290.078, Subdivision 1; 290.08, Subdivision 3, and adding a new subdivision thereto; 290.09, as amended by Extra Session Laws 1959, Chapter 70, Article III, Section 7, and Article XI; 290.12, Subdivision 2; 290.13, Subdivision 5; 290.135, Subdivision 2; 290.135, Subdivision 3; 290.136, Subdivision 6; 290.16, Subdivision 7; 290.16, Subdivision 9; 290.16, Subdivision 12; 290.16, Subdivision 13.

Be it enacted by the Legislature of the State of Minnesota:

Section 1. Minnesota Statutes 1957, Section 290.078, Subdivision 1, is amended to read:

290.078 **Restricted stock options.** Subdivision 1. **Treatment in general.** If a share of stock is transferred to an individual pursuant to his exercise after 1950 of a restricted stock option, and no disposition of such share is made by him within two years from the date of the granting of the option nor within six months after the transfer of such share to him.

(1) No income shall result at the time of the transfer of such share to the individual upon his exercise of the option *with respect to such share*;

(2) No deduction under section 290.09 shall be allowable at any time to the employer corporation of such individual or its parent or subsidiary corporation, or a corporation issuing or assuming a stock option in a transaction to which subdivision 7 is applicable, with respect to the share so transferred; and

(3) No amount other than the price paid under the option shall be considered as received by either of such corporations for the share so transferred.

This subdivision and subdivision 2 shall not apply unless (A) the individual, at the time he exercises the restricted stock option, is an employee of the corporation granting such option or of a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which subdivision 7 is applicable, or (B) the op-

tion is exercised by him within three months after the date he ceases to be an employee of any such corporation.

In applying paragraphs (2) and (3) of subdivision 4 for purposes of the preceding sentence, there shall be substituted for the term "employer corporation" wherever it appears in such paragraphs the term "grantor corporation", or the term "corporation issuing or assuming a stock option in a transaction to which subdivision 7 is applicable", as the case may be.

Section 2. Minnesota Statutes 1957, Section 290.08, Subdivision 3, is amended to read:

Subd. 3. **Certain death benefits.** (a) Proceeds of Life Insurance Contracts Payable by Reason of Death.

(1) General Rule. Except as otherwise provided in paragraph (2) and in ~~subsectio~~ *paragraph* (d), gross income does not include amounts received (whether in a single sum or otherwise) under a life insurance contract, if such amounts are paid by reason of the death of the insured.

(2) Transfer for valuable consideration. In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance contract or any interest therein, the amount excluded from gross income by paragraph (1) shall not exceed an amount equal to the sum of the actual value of such consideration and the premiums and other amounts subsequently paid by the transferee. The preceding sentence shall not apply in the case of such a transfer—

(A) if such contract or interest therein has a basis for determining gain or loss in the hands of a transferee determined in whole or in part by reference to such basis of such contract or interest therein in the hands of the transferor, or

(B) if such transfer is to the insured, to a partner of the insured, to a partnership in which the insured is a partner, or to a corporation in which the insured is a shareholder or officer.

(b) Employees' Death Benefits.

(1) General rule. Gross income does not include amounts received (whether in a single sum or otherwise) by the beneficiaries or the estate of an employee, if such amounts are paid by or on behalf of an employer and are paid by reason of the death of the employee.

(2) Special rules for paragraph (1).

(A) $5,000 Limitation. The aggregate amounts excludable under paragraph (1) with respect to the death of any employee shall not exceed $5,000.

(B) Nonforfeitable rights. Paragraph (1) shall not apply to amounts with respect to which the employee possessed, immediately before his death, a nonforfeitable right to receive the amounts while living. ~~(other than total distributions which are paid to a distributee of a stock bonus, pension, or profit sharing trust described in section 290.26 and which trust is exempt from tax under section 290.26, or under an annuity contract under a plan which meets the requirements of paragraphs (3), (4), (5), and (6) of section 401(a) (of the Internal Revenue Code of 1954 as adapted to the provisions of this chapter in accordance with the provisions of section 290.26 within one taxable year of the distributee by reason of the employee's death).~~ *This subparagraph shall not apply to total distributions payable (as defined in section 402(a)(3) of the Internal Revenue Code of 1954) which are paid to a distributee within one taxable year of the distributee by reason of the employee's death—*

(i) by a stock bonus, pension, or profit-sharing trust described in section 401(a) of the Internal Revenue Code of 1954 which is exempt from tax under section 501(a) of the Internal Revenue Code of 1954.

(ii) under an annuity contract under a plan which meets the requirements of paragraphs (3), (4), (5), and (6) of section 401(a) of the Internal Revenue Code of 1954, or

(iii) under an annuity contract purchased by an employer which is an organization referred to in section 503(b)(1), (2), or (3) of the Internal Revenue Code of 1954 and which is exempt from tax under section 501(a) of the Internal Revenue Code of 1954, but only with respect to that portion of such total distributions payable which bears the same ratio to the amount of such total distributions payable which is (without regard to this clause (b)) includible in gross income, as the amounts contributed by the employer for such annuity contract which are excludable from gross income under section 403(b) of the Internal Revenue Code of 1954 bear to the total amounts contributed by the employer for such annuity contract.

(C) Joint and survivor annuities. Paragraph (1) shall not apply to amounts received by a surviving annuitant under

a joint and survivor's annuity contract after the first day of the first period for which an amount was received as an annuity by the employee (or would have been received if the employee had lived.)

(D) Other annuities. In the case of any amount to which subdivision 4 (relating to annuities, etc.) applies, the amount which is excludable under paragraph (1) (as modified by the preceding subparagraphs of this paragraph) shall be determined by reference to the value of such amount as of the day on which the employee died. Any amount so excludable under paragraph (1) shall, for purposes of subdivision 4, be treated as additional consideration paid by the employee.

(c) Interest. If any amount excluded from gross income by subsection (a) or (b) is held under an agreement to pay interest thereon, the interest payments shall be included in gross income.

(d) Payment of Life Insurance Proceeds at a Date Later Than Death.

(1) General Rule. The amounts held by an insurer with respect to any beneficiary shall be prorated (in accordance with such regulations as may be prescribed by the commissioner) over the period or periods with respect to which such payments are to be made. There shall be excluded from the gross income of such beneficiary in the taxable year received—

(A) any amount determined by such proration, and

(B) in the case of the surviving spouse of the insured, that portion of the excess of the amounts received under one or more agreements specified in paragraph (2) (A) (whether or not payment of any part of such amounts is guaranteed by the insurer) over the amount determined in subparagraph (A) of this paragraph which is not greater than $1,000 with respect to any insured. Gross income includes, to the extent not excluded by the preceding sentence, amounts received under agreements to which this subsection applies.

(2) Amount held by an insurer. An amount held by an insurer with respect to any beneficiary shall mean an amount to which subsection (a) applies which is—

(A) held by any insurer under an agreement provided for in the life insurance contract, whether as an option or

otherwise, to pay such amount on a date or dates later than the death of the insured, and

(B) is equal to the value of such agreement to such beneficiary

(i) as of the date of death of the insured (as if any option exercised under the life insurance contract were exercised at such time), and

(ii) as discounted on the basis of the interest rate and mortality tables used by the insurer in calculating payments under the agreement.

(3) Surviving spouse. For purposes of this subsection, the term "surviving spouse" means the spouse of the insured as of the date of death, including a spouse legally separated but not under a decree of absolute divorce.

(4) Application of subsection. This subsection shall not apply to any amount to which subsection (c) is applicable.

(e) Alimony, etc., Payments.

(1) In general. This section shall not apply to so much of any payment as is includible in the gross income of the wife under section 290.09, subdivision 15 (relating to alimony) or section 290.072 (relating to income of an estate or trust in case of divorce, etc.).

Sec. 3. Minnesota Statutes 1957, section 290.09, as amended by Extra Session Laws 1959, Chapter 70, Article III, Section 7, and Article XI, is amended to read:

290.09 **Deductions from gross income.** The following deductions from gross income shall be allowed in computing net income:

[(1)] (a) In General. There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including

(1) A reasonable allowance for salaries or other compensation for personal services actually rendered;

(2) Traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and

(3) Rentals or other payments required to be made as

a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity. For purposes of the preceding sentence, the place of residence of a member of Congress within the state shall be considered his home, but amounts expended by such members within each taxable year for living expenses shall not be deductible for income tax purposes in excess of $3,000.

(b) Expenses for Production of Income. In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year

(1) For the production or collection of income;

(2) For the management, conservation, or maintenance of property held for the production of income; or

(3) In connection with the determination, collection, or refund of any tax.

(c) Within the following listed limitations any part of his campaign expenditures not subsequently reimbursed, *which have been personally paid by a candidate for public* office if the candidate has complied with the expenditure limitations set out in Minnesota Statutes, Section 211.06:

(1)	A candidate for governor or United States Senator	$5,000
(2)	A candidate for other state office or United States Representative	3,500
(3)	A candidate for State Senator	500
(4)	A candidate for State Representative	500
(5)	A *candidate for presidential elector at* large	500
(6)	A candidate for presidential elector from a congressional district	100
(7)	A candidate for any other public office	1/4 annual salary.

(No deduction shall be allowed under this clause for any contribution or gift which would be allowable as a credit under section 290.21 were it not for the percentage limitations set forth in such section);

(d) All expense money paid by the legislature to legislators.

(2) (a) All interest paid or accrued within the taxable year on indebtedness, except as hereinafter provided.

(b) Interest paid or accrued within the taxable year on indebtedness incurred or continued to purchase or carry obligations or securities the income from which is excludable from gross income under section 290.08, or on indebtedness *incurred or continued in connection with the purchasing or* carrying of a single premium life insurance, annuity, or endowment contract, shall not be allowed as a deduction. (For purposes of this paragraph, a contract shall be treated as a single premium contract if substantially all the premiums on the contract are paid within a period of four years from the date on which the contract is purchased, or if an amount is deposited after January 1, 1955 with the insurer for payment of a substantial number of future premiums on the contract.)

(c) If personal property is purchased under a contract which provides that payment of part or all of the purchase price is to be made in installments, and in which carrying charges are separately stated but the interest charge cannot be ascertained, then the payments made during the taxable year under the contract shall be treated for purposes of this paragraph as if they included interest equal to 6 percent of the average unpaid balance under the contract during the taxable year, and such interest shall be allowed as a deduction. For purposes of the preceding sentence, the average unpaid balance is the sum of the unpaid balance outstanding on the first day of each month beginning during the taxable year, divided by 12. In the case of any contract to which this paragraph applies, the amount treated as interest for any taxable year shall not exceed the aggregate carrying charges which are properly attributable to such taxable year.

(3) Taxes paid or accrued within the taxable year, except (a) income or franchise taxes imposed by this chapter; and (b) taxes assessed against local benefits of a kind deemed in law to increase the value of the property assessed; and (c) inheritance, gift and estate taxes. Income taxes permitted to be deducted hereunder shall, regardless of the methods of accounting employed, be deductible only in the taxable year in which paid. Taxes imposed upon a shareholder's interest in a corporation which are paid by the corporation without reimbursement from the shareholder shall be deductible only by such corporation;

(4) (a) General Rule. There shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise.

(b) Amount of Deduction. For purposes of paragraph (a), the basis for determining the amount of the deduction for any loss shall be the adjusted basis provided in sections 290.14 and 290.15 for determining the loss from the sale or other disposition of property.

(c) Limitation on Losses of Individuals. In the case of an individual, the deduction under paragraph (a) shall be limited to

(1) Losses incurred in a trade or business;

(2) Losses incurred in any transaction entered into for profit, though not connected with a trade or business; and

(3) Losses of property not connected with a trade or business, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft. No loss described in this paragraph shall be allowed if, at the time of the filing of the return, such loss has been claimed for inheritance tax purposes.

(d) Wagering Losses. Losses from wagering transactions shall be allowed only to the extent of the gains from such transactions.

(e) Theft Losses. For purposes of paragraph (a), any loss arising from theft shall be treated as sustained during the taxable year in which the taxpayer discovers such loss.

(f) Capital Losses. Losses from sales or exchanges of capital assets shall be allowed only to the extent allowed in section 290.16.

(g) Worthless Securities.

(1) General Rule. If any security which is a capital asset becomes worthless during the taxable year, the loss resulting therefrom shall, for purposes of this chapter, be treated as a loss from the sale or exchange, on the last day of the taxable year, of a capital asset.

(2) Security Defined. For purposes of this paragraph, the term "security" means:

(A) A share of stock in a corporation;

(B) A right to subscribe for, or to receive, a share of stock in a corporation; or

(C) A bond, debenture, note, or certificate, or other evidence of indebtedness, issued by a corporation or by a government or political subdivision thereof, with interest coupons or in registered form.

(3) Securities in Affiliated Corporation. For purposes of paragraph (1), any security in a corporation affiliated with a taxpayer which is a domestic corporation shall not be treated as a capital asset. For purposes of the preceding sentence, a corporation shall be treated as affiliated with the taxpayer only if:

(A) At least 95 percent of each class of its stock is owned directly by the taxpayer, and

(B) More than 90 percent of the aggregate of its gross receipts for all taxable years has been from sources other than royalties, rents (except rents derived from rental from properties to employees of the corporation in the ordinary course of its operating business), dividends, interest (except interest received on deferred purchase price of operating assets sold), annuities, and gains from sales or exchanges of stocks and securities. In computing gross receipts for purposes of the preceding sentence, gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom.

(5) (a) General Rule.

(1) Wholly worthless debts. There shall be allowed as a deduction any debt which becomes worthless within the taxable year.

(2) Partially worthless debts. When satisfied that a debt is recoverable only in part, the commissioner may allow such a debt, in an amount not in excess of the part charged off within the taxable year, as a deduction.

(b) Amount of Deduction. For purposes of paragraph (a), the basis for determining the amount of the deduction for any bad debt shall be the adjusted basis provided in sections 290.14 and 290.15 for determining the loss from the sale or other disposition of property.

(c) Reserve for Bad Debts. In lieu of any deduction under paragraph (a), there shall be allowed (in the discretion of the commissioner) a deduction for a reasonable addition

to a reserve for bad debts. Provided that banks taxable under the provisions of Minnesota Statutes 1957, Section 290.361, which have heretofore in any taxable year taken such deductions by the reserve method for federal income tax purposes pursuant to the Federal Internal Revenue Code of 1954 and regulations adopted pursuant thereto may take such deductions by the same method; and provided further that each savings, building and loan association may take as a reasonable addition to reserve for bad debts such sums as are permitted to such associations for federal income tax purposes under Section 593 of the Federal Internal Revenue Code of 1954, but the deductions by any such association for any one year shall not exceed 3/10 of one percent of the outstanding share capital as of the beginning of the taxable year or ten percent of the net earnings of such year, before the deduction of interest or dividends payable to its members, whichever is greater.

(d) Nonbusiness Debts.

(1) General Rule. In the case of a taxpayer other than a corporation:

(A) Paragraphs (a) and (c) shall not apply to any nonbusiness debt; and

(B) Where any nonbusiness debt becomes worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months.

(2) For purposes of subparagraph (1), the term "nonbusiness debt" means a debt other than:

(A) A debt created or acquired (as the case may be) in connection with a trade or business of the taxpayer; or

(B) A debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business.

(e) Worthless Securities. This section shall not apply to a debt which is evidenced by a security as defined in section 290.09 (4) (g) (2) (C).

(f) Guarantor of Certain Noncorporate Obligations. A payment by the taxpayer (other than a corporation) in discharge of part or all of his obligation as a guarantor, endorser, or indemnitor of a noncorporate obligation the proceeds of which were used in the trade or business of the

borrower shall be treated as a debt becoming worthless within such taxable year for purposes of this subdivision (except that paragraph (d) shall not apply), but only if the obligation of the borrower to the person to whom such payment was made was worthless (without regard to such guaranty, endorsement, or indemnity) at the time of such payment.

(6) **[(A)]** (a) There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence):

(1) of property used in the trade or business, or

(2) of property held for the production of income.

(b) The term "reasonable allowance" as used in clause (a) shall include (but shall not be limited to) an allowance computed in accordance with regulations prescribed by the Commissioner, under any of the following methods:

(1) the straight line method.

(2) the declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in paragraph (1).

(3) the sum of the years-digits method, and

(4) any other consistent method productive of an annual allowance, which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in (2). Nothing in this clause (b) shall be construed to limit or reduce an allowance otherwise allowable under clause (a).

(c) Paragraphs (2), (3), and (4) of clause (b) shall apply only in the case of property (other than intangible property) described in clause (a) with a useful life of 3 years or more.

(1) the construction, reconstruction, or erection of which is completed after December 31, 1958, and then only to that portion of the basis which is properly attributable to such construction, reconstruction, or erection after December 31, 1958, or

(2) acquired after December 31, 1958, if the original use of such property commenced with the taxpayer and commences after such date.

(d) Where, under regulations prescribed by the commissioner, the taxpayer and the commissioner have, after the date of enactment of this act, entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the commissioner in the absence of facts or circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by registered mail is served by the party to the agreement initiating such change.

(e) In the absence of an agreement under clause (d) containing a provision to the contrary, a taxpayer may at any time elect in accordance with regulations prescribed by the commissioner to change from the method of depreciation prescribed in clause (b) (2) to the method described in clause (c) (1).

(f) The basis on which exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the adjusted basis provided in sections 290.14 and 290.15 for the purpose of determining the gain on the sale or other disposition of such property.

(g) In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiary and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each. In the case of an estate, the allowable deduction shall be apportioned between the estate and the heirs, legatees, and devisees on the basis of the income of the estate allocable to each.

(h) In the case of buildings or other structures or im-

provements constructed or made on leased premises by a lessee, and the fixtures and machinery therein installed, the lessee alone shall be entitled to the allowance of this deduction;

[(B)] (A) In the case of section 1 property, the term "reasonable allowance" as used in section 290.09 (6) may, at the election of the taxpayer, include an allowance, for the first taxable year for which a deduction is allowable under section 290.09 (6) to the taxpayer with respect to such property, of 20 percent of the cost of such property.

(B) If in any one taxable year the cost of section 1 property with respect to which the taxpayer may elect an allowance under subsection (A) for such taxable year exceeds $10,000, then subsection (A) shall apply with respect to those items selected by the taxpayer, but only to the extent of an aggregate cost of $10,000. In the case of a husband and wife who file a joint return under section 290.38 for the taxable year, the limitation under the preceding sentence shall be $20,000 in lieu of $10,000.

(C) (1) The election under this section for any taxable year shall be made within the time prescribed by law (including extensions thereof) for filing the return for such taxable year. The election shall be made in such manner as the commissioner may be regulations prescribe.

(2) Any election made under this section may not be revoked except with the consent of the commissioner.

(D) (1) For purposes of this section, the term "Section 1 property" means tangible personal property (excluding buildings and structures)

(A) of a character subject to the allowance for depreciation under section 290.09 (6),

(B) acquired by purchase after December 31, 1958, for use in a trade or business or for holding for production of income, and

(C) with a useful life (determined at the time of such acquisition) of 6 years or more.

(2) For purposes of paragraph (1), the term "purchase" means any acquisition of property, but only if

(A) the property is not acquired from a person whose

relationship to the person acquiring it would result in the disallowance of losses under section 290.10 (6),

(B) the property is not acquired by one member of an affiliated group from another member of the same affiliated group, and

(C) the basis of the property in the hands of the person acquiring it is not determined

(i) in whole or in part by reference to the adjusted basis of such property in the hands of the person from whom acquired, or

(ii) under section 290.14 (4) (relating to property acquired from a decedent).

(3) For purposes of this section, the cost of property does not include so much of the basis of such property as is determined by reference to the basis of other property held at any time by the person acquiring such property.

(4) This section shall not apply to trusts.

(5) In the case of an estate, any amount apportioned to an heir, legatee, or devisee shall not be taken into account in applying subsection (B) of this section to section 1 property of such heir, legatee, or devisee not held by such estate.

(6) For purposes of subsection (B) of this section

(A) all members of an affiliated group shall be treated as one taxpayer, and

(B) the commissioner shall apportion the dollar limitation contained in such subsection (B) among the members of such affiliated group in such manner as he shall by regulations prescribe.

(7) For purposes of paragraphs (2) and (6), the term "affiliated group" has the meaning assigned to it by section 1504 of the Internal Revenue Code of 1954, except that, for such purposes, the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place it appears in section 1504 (A) of the Internal Revenue Code of 1954.

7) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion. In the case of leases the deduction shall be equitably apportioned between the lessor and lessee in accordance with

rules prescribed by the commissioner. In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each;

(8) The amount of the deduction under clauses (6) and (7) shall be computed on the basis specified in section 290.16;

(9) The deductions provided for herein shall be taken for the taxable year in which paid or accrued, dependent upon the method of accounting employed in computing net income, unless in order to clearly reflect income they should be taken as of a different year;

(10) No deductions shall be allowed unless the taxpayer, when thereunto requested by the commissioner, furnishes him with information sufficient to enable him to determine the validity and correctness thereof;

(11) Payments for expenses for hospital, nursing, medical, surgical, dental, and other healing services, including institutional care and treatment for the mentally ill and physically handicapped, and for medical supplies and ambulance hire, incurred by the taxpayer on account of sickness, mental illness, physical handicap or personal injury to himself or his dependents and premiums paid for hospitalization insurance including non-profit hospital service and non-profit medical service plans. Payments for traveling expenses shall not be deductible under the provisions of this subdivision. Payments for hotel or similar lodging expenses shall be deductible in the same manner as payments for hospital services, if the taxpayer or his dependent is not hospitalized but is nevertheless required to remain in a medical center away from his usual place of abode, for the purpose of receiving prescribed medical treatment;

(12) An allowance for amortization of war facilities to the extent that such deduction is finally allowed under section 168 of the Internal Revenue Code of 1954 *as amended,* provided no deduction has been claimed with respect thereto under clause (6) of this section or any other section, subdivision, or clause of this chapter;

(13) No amount shall be included in gross income by reason of the discharge, in whole or in part, within the taxable year, of any indebtedness for which the taxpayer is liable, or subject to which the taxpayer holds property, if the indebtedness was incurred or assumed by a corporation, or by an individual in connection with property used in his trade or business, and such taxpayer makes and files a consent to the regulations prescribed under the last paragraph of this clause then in effect at such time and in such manner as the commissioner by regulations prescribes.

In such case, the amount of any income of such taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income, and the amount of the deduction attributable to any unamorized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction.

Where any amount is excluded from gross income under this clause the whole or a part of the amount so excluded from gross income shall be applied in reduction of the basis of any property held (whether before or after the time of the discharge) by the taxpayer during any portion of the taxable year in which such discharge occurred. The amount to be so applied (not in excess of the amount so excluded from gross income, reduced by the amount of any reduction disallowed under the preceding paragraph) and the particular properties to which the reduction shall be allocated, shall be determined under regulations (prescribed by the commissioner) in effect at the time of the filing of the consent by the taxpayer. The reduction shall be made as of the first day of the taxable year in which the discharge occurred, except in the case of property not held by the taxpayer on such first day, in which case it shall take effect as of the time the holding of the taxpayer began.

(14) An allowance for all taxable years beginning after December 31, 1954, for amortization of bond premiums in accordance with the provisions of section 171 of the Internal Revenue Code of 1954 *as amended,* adapted to the provisions of this chapter under regulations issued by the commissioner, but only to the extent that such deduction has not been allowed under any other section of this chapter.

(15) Periodic payments to a wife who is divorced or

separated from her husband by order of court or by decree of divorce or separate maintenance, periodic payments to a wife, who is separated from her husband, made under a written separation agreement, and periodic payments to a wife separated from her husband under a decree requiring the husband to make payments for her support or maintenance, received in discharge of, or attributable to property transferred in trust or otherwise in discharge of, a legal obligation imposed on the husband by such decree or by written instrument incident to such divorce or separation, shall be deductible from gross income of the husband except to the extent they are excluded from his gross income as provided in section 290.072, subdivision 2. The term "periodic payments" as used in this clause shall not include that part of any amount which is fixed by order of court or by the decree or written instrument as payable for the support of minor children of the husband. To the extent of the amount so fixed, the entire amount of such payment, if less than the total amount payable, shall be considered as payable for the support of minor children. Installment payments of lump sum obligations fixed in the decree or written instrument shall not be considered periodic payments under this clause, unless the total amount is to be paid within a period ending more than ten years from the date of the decree or instrument, and then only to the extent that installment payments paid during the taxable year do not exceed ten percent of the total amount so fixed.

(16) In lieu of all deductions provided for in this chapter other than those enumerated in section 290.18, subdivision 2, and in lieu of the credits enumerated in section 290.21, clause (2), an individual may claim or be allowed a standard deduction as follows:

(a) If his adjusted gross income is $10,000 or more, the standard deduction shall be $1,000.

(b) If his adjusted gross income is less than $10,000, the standard deduction shall be an amount equal to ten percent thereof; in such case the standard deduction will be available only through the use of the schedule of taxes provided in section 290.06, subdivision 2.

In the case of a husband and wife living together, the standard deduction shall not be allowed to either if the net income of one of the spouses is determined without regard to the standard deduction. For the purposes of this paragraph the determination of whether an individual is living with his spouse shall be made as of the last day of the tax-

able year unless the spouse dies during the taxable year in which case such determination shall be made as of the date of such spouse's death.

If a taxable year is less than 12 months because of a change in the accounting period or because of a change in *domicile, the standard deduction shall not be allowed.*

(17) Notwithstanding the provisions of section 290.10 (2), all expenditures (other than expenditures for the purchase of land or depreciable property or for the acquisition of circulation through the purchase of any part of the business of another publisher of a newspaper, magazine, or other periodical) to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical; except that the deduction shall not be allowed with respect to the portion of such expenditures as, under regulations prescribed by the commissioner, is chargeable to capital account if the taxpayer elects, in accordance with such regulations, to treat such portion as so chargeable. Such election, if made, *must be for the total amount of such portion of the expenditures* which is so chargeable to capital account, and shall be binding for all subsequent taxable years unless, upon application by the taxpayer, the commissioner permits a revocation of such election subject to such conditions as he deems necessary.

(18) In the case of a tenant-stockholder as defined herein, amounts, not otherwise deductible, paid or accrued to a cooperative apartment corporation within the taxable year, if such amounts represent that proportion of (a) the real estate taxes (allowable as deductions under clause (3) of this section) paid or incurred by the corporation on the apartment building and the land on which it is situated, and (b) the interest (allowable as a deduction under clause (2) of this section) paid or incurred by the corporation on its indebtedness contracted in the acquisition, construction, alteration, rehabilitation, or maintenance of such apartment building or in the acquisition of the land on which the building is located, which the stock of the corporation owned by the tenant-stockholder is of the total outstanding stock of the corporation, including that held by the corporation.

As used in this clause the term "cooperative apartment corporation" means a corporation

(a) having one and only one class of stock outstanding,

(b) all of the stockholders of which are entitled, solely by reason of their ownership of stock in the corporation, to occupy for dwelling purposes apartments in a building owned or leased by such corporation, and who are not entitled, either conditionally or unconditionally, except upon a complete or partial liquidation of the corporation, to receive any distribution not out of earnings and profits of the corporation, and

(c) 80 percent or more of the gross income of which for the taxable year in which the taxes and interest described in this clause are paid or incurred is derived from tenant-stockholders.

The term "tenant-stockholder" means an individual who is a stockholder in a cooperative apartment corporation, and whose stock is fully paid-up in an amount not less than an amount shown to the satisfaction of the commissioner as bearing a reasonable relationship to the portion of the value of the corporation's equity in the building and the land on which it is situated which is attributable to the apartment which such individual is entitled to occupy.

(19) (a) A taxpayer may treat research or experimental expenditures which are paid or incurred by him during the taxable year in connection with his trade or business as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction. A taxpayer may, without the consent of the commissioner, adopt the method provided herein for his first taxable year which begins after December 31, 1954, and for which expenditures described herein are paid or incurred. A taxpayer may, with the consent of the commissioner, adopt at any time the method provided in this paragraph. The method adopted under this paragraph shall apply to all expenditures described herein. The method adopted shall be adhered to in computing net income for the taxable year and for all subsequent taxable years unless, with the approval of the commissioner, a change to a different method is authorized with respect to part or all of such expenditures.

(b) At the election of the taxpayer, made in accordance with regulations prescribed by the commissioner, research or experimental expenditures which are paid or incurred by the taxpayer in connection with his trade or business, not treated as expenses under paragraph (a), and chargeable to capital account but not chargeable to property of a character which is subject to the allowance under clause

(6) of this section (relating to allowance for depreciation, etc.) or clause (7) of this section (relating to allowance for depletion), may be treated as deferred expenses. In computing net income, such deferred expenses shall be allowed as a deduction ratably over such period of not less than 60 months as may be selected by the taxpayer (beginning with the month in which the taxpayer first realizes benefits from such expenditures). Such deferred expenses are expenditures properly chargeable to capital account for purposes of section 290.12, subdivision 2 (relating to adjustments to basis of property). *The election provided in this paragraph may be* made for any taxable year beginning after December 31, 1954, but only if made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). The method so elected, and the period selected by the taxpayer, shall be adhered to in computing net income for the taxable year for which the election is made and for all subsequent taxable years unless, with the approval of the commissioner, a change to a different method (or to a different period) is authorized with respect to part or all of such expenditures. The election shall not apply to any expenditure paid or incurred during any taxable year before the taxable year for which the taxpayer makes the election.

(c) This clause shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under clause (6) of this section (relating to allowance for depreciation, etc.) or clause (7) of this section (relating to allowance for depletion); but for purposes of this clause allowances under clause (6), and allowances under clause (7), shall be considered as expenditures.

(d) This clause shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

(20) The organizational expenditures of a corporation may, at the election of the corporation (made in accordance with regulations prescribed by the commissioner), be treated as deferred expenses and in computing net income, such deferred expenses shall be allowed as a deduction ratably over such period of not less than 60 months as may be selected by the corporation (beginning with the month in which the cor-

poration begins business). The term "organizational expenditures" means any expenditure which is incident to the creation of the corporation; is chargeable to capital account; and is of a character which, if expended incident to the creation of a corporation having a limited life, would be amortizable over such life. The election provided herein may be made for any taxable year beginning after December 31, 1954, but only if made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). The period so elected shall be adhered to in computing the net income of the corporation for the taxable year for which the election is made and all subsequent taxable years. The election shall apply only with respect to expenditures paid or incurred on or after January 1, 1955.

(21) (A) (1) Any person who constructs, reconstructs, or erects a grain-storage facility (as defined in paragraph (d)) shall, at his election, be entitled to a deduction with respect to the amortization of the adjusted basis (for determining gain) of such facility based on a period of 60 months. The 60-month period shall begin as to any such facility, at the election of the taxpayer, with the month following the month in which the facility was completed, or with the succeeding taxable year.

(2) Any person who acquires a grain-storage facility from a taxpayer who elected under paragraph (b) to take the amortization deduction provided by this paragraph with respect to such facility, and did not discontinue the amortization deduction pursuant to paragraph (c), shall, at his election, be entitled to a deduction with respect to the adjusted basis (determined under paragraph (e) (2)) of such facility based on the period, if any, remaining (at the time of acquisition) in the 60-month period elected under paragraph (b) by the person who constructed, reconstructed, or erected such facility.

(3) The amortization deduction provided in subparagraphs (1) and (2) shall be an amount, with respect to each month of the amortization period within the taxable year, equal to the adjusted basis of the facility at the end of such month, divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such adjusted basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction above provided with respect to any month shall be in lieu of the depreciation de-

duction with respect to such facility for such month provided by section 290.09 (6).

(b) The election of the taxpayer under paragraph (a) (1) to take the amortization deduction and to begin the 60-month period with the month following the month in which the facility was completed shall be made only by a statement to that effect in the return for the taxable year in which the facility was completed. The election of the taxpayer under paragraph (a) (1) to take the amortization deduction and to begin such period with the taxable year succeeding such year shall be made only by a statement to that effect in the return for such succeeding taxable year. The election of the taxpayer under paragraph (a) (2) to take the amortization deduction shall be made only by a statement to that effect in the return for the taxable year in which the facility was acquired. Notwithstanding the preceding three sentences, the election of the taxpayer under paragraph (a) (1) or (2) may be made, under such regulations as the commissioner may prescribe, before the time prescribed in the applicable sentence.

(c) A taxpayer which has elected under paragraph (b) to take the amortization deduction provided in paragraph (a) may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the commissioner before the beginning of such month. The depreciation deduction provided under section 290.09 (6) shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction with respect to such facility.

(d) *For purposes of this clause, the term* "grain-storage facility" means

(1) any corn crib, grain bin, or grain elevator, or any similar structure suitable primarily for the storage of grain, which crib, bin, elevator, or structure is intended by the taxpayer at the time of his election to be used for the storage of grain produced by him (or, if the election is made by a partnership, *produced by the members thereof*); and

(2) any public grain warehouse permanently equipped for receiving, elevating, conditioning, and loading out grain,

the construction, reconstruction, or erection of which was completed after December 31, 1954, and on or before December 31, 1956. If any structure described in subparagraph (1) or (2) of the preceding sentence is altered or remodeled so as to increase its capacity for the storage of grain, or if any structure is converted, through alteration or remodeling, into a structure so described, and if such alteration or remodeling was completed after December 31, 1954, and on or before December 31, 1956, such alteration or remodeling shall be treated as the construction of a grain-storage facility. The term "grain-storage facility" shall include only property of a character which is subject to the allowance for depreciation provided in section 290.09 (6). The term "grain-storage facility" shall not include any facility any part of which is an emergency facility within the meaning of section 290.09 (12).

(e) (1) For purposes of paragraph (a) (1) in determining the adjusted basis of any grain-storage facility, the construction, reconstruction, or erection of which was begun before January 1, 1955, there shall be included only so much of the amount of the adjusted basis (computed without regard to this paragraph) as is properly attributable to such construction, reconstruction, or erection after December 31, 1954; and in determining the adjusted basis of any facility which is grain-storage facility within the meaning of the second sentence of paragraph (d), there shall be included only so much of the amount otherwise included in such basis as is properly attributable to the alteration or remodeling.

If any existing grain-storage facility as defined in the first sentence of paragraph (d) is altered or remodeled as provided in the second sentence of paragraph (d), the expenditures for such remodeling or alteration shall not be applied in adjustment of the basis of such existing facility but a separate basis shall be computed in respect of such facility as if the part altered or remodeled were a new and separate grain-storage facility.

(2) For purposes of paragraph (a) (2), the adjusted basis of any grain-storage facility shall be whichever of the following amounts is the smaller: The basis (unadjusted) of such facility for purposes of this section in the hands of the transferor, donor, or grantor, adjusted as if such facility in the hands of the taxpayer had a substituted basis, or so much of the adjusted basis (for determining gain) of the facility in the hands of the taxpayer (as computed without regard

to this paragraph) as is properly attributable to construction, reconstruction, or erection after December 31, 1954. The term "substituted basis" as used in the preceding sentence means a basis determined under any provision of this chapter, providing that the basis shall be determined

(1) By reference to the basis in the hands of a transferor, donor, or grantor, or

(2) By reference to other property held at any time by the person for whom the basis is to be determined.

(f) If the adjusted basis of the grain-storage facility (computed without regard to paragraph (e)) exceeds the adjusted basis computed under paragraph (e), the depreciation deduction provided by section 290.09 (6) shall, despite the provisions of paragraph (a) (3) of this clause, be allowed with respect to such grain-storage facility as if the adjusted basis for the purpose of such deduction were an amount equal to the amount of such excess.

(g) In the case of property held by one person for life with remainder to another person, the amortization deduction provided in paragraph (a) shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust the allowable deduction shall be apportioned between the income beneficiary and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or in the absence of such provisions, on the basis of the trust income allocable to each.

(22) Expenditures which are paid or incurred during the taxable year by a taxpayer engaged in the business of farming for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming, may be treated by him as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction, but the amount deductible for any taxable year shall not exceed 25 percent of the gross income derived from farming during the taxable year. If for any taxable year the total of the expenditures treated as expenses which are not chargeable to capital account exceeds 25 percent of the gross income derived from farming during the taxable year, such excess shall be deductible for succeeding taxable years in order of time; but the amount deductible under this clause for any one such succeeding taxable year (including the expenditures actually

paid or incurred during the taxable year) shall not exceed 25 percent of the gross income derived from farming during the taxable year.

For purposes of this clause the term "expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming" means expenditures paid or incurred for the treatment or moving of earth, including (but not limited to) leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds, the eradication of brush, and the planting of windbreaks. Such term does not include the purchase, construction, installation, or improvement of structures, appliances, or facilities which are of a character which is subject to the allowance for depreciation provided in section 290.09 (6), or any amount paid or incurred which is allowable as a deduction without regard to this clause.

The term "land used in farming" means land used (before or simultaneously with the expenditures described in the foregoing paragraphs of this clause) by the taxpayer or his tenant for the production of crops, fruits, or other agricultural products or for the sustenance of livestock.

A taxpayer may, without the consent of the commissioner, adopt the method provided in this clause for his first taxable year which begins after December 31, 1954, and for which expenditures described in this clause are paid or incurred. A taxpayer may, with the consent of the commissioner, adopt at any time the method provided in this clause. The method adopted shall apply to all expenditures described in this clause. The method adopted shall be adhered to in computing net income for the taxable year and for all subsequent taxable years unless, with the approval of the commissioner, a change to a different method is authorized with respect to part or all of such expenditures.

(23) The amount he has paid to others for tuition of each dependent and the cost of transportation of each dependent in attending an elementary or secondary school; provided that the deduction for each dependent shall not exceed $200.

Sec. 4. Minnesota Statutes 1957, Section 290.12, Subdivision 2, is amended to read:

Subd. 2. **Adjustments.** In computing the amount of gain or loss under subdivision 1 proper adjustment shall be made for any expenditure, receipt, loss, or other item properly chargeable to capital account by the taxpayer during his ownership thereof, and for the gain or any part thereof realized from the sale, exchange or involuntary conversion of a residence where, by reason of the provisions of section 290.13, such gain or any part thereof is not recognized. The basis shall be diminished by the amount of the deductions for exhaustion, wear and tear, obsolescence, amortization, depletion, and the allowance for amortization of bond premium if an election to amortize was made in accordance with section 290.09(14), which could, during the period of his ownership thereof, have been deducted by the taxpayer under this chapter in respect of such property. In addition, if the property was acquired before January 1, 1933, the basis, if other than the fair market value as of such date, shall be diminished by the amount of exhaustion, wear and tear, obsolescence, amortization, or depletion actually sustained before such date. In respect of any period since December 31, 1932, during which property was held by a person or an organization not subject to income taxation under this act, proper adjustment shall be made for exhaustion, wear and tear, obsolescence, amortization, and depletion of such property to the extent sustained. ~~In the case of stock the basis shall be diminished by the amount of tax free distributions of capital received by the taxpayer in respect of such stock at any time during his ownership thereof.~~ For the purpose of determining the amount of these adjustments the taxpayer who sells or otherwise disposes of property acquired by gift shall be treated as the owner thereof from the time it was acquired by the last preceding owner who did not acquire it by gift, and the taxpayer who sells or otherwise disposes of property acquired by gift through an inter vivos transfer in trust shall be treated as the owner from the time it was acquired by the grantor. The adjustments in case of a sale or other disposition of property received in a transaction of the kind specified in section 290.13, clause (1), and in the case of a transaction referred to in section 290.14, clause (5), shall include those which the taxpayer should have been required to make were he selling or otherwise disposing of the property exchanged, or sold, in any such transaction.

Sec. 5. Minnesota Statutes 1957, Section 290.13, Subdivision 5, is amended to read.

Subd. 5. **Conversion of property.** If property (as a

result of its destruction in whole or in part, theft, seizure, or requisition or condemnation or threat or imminence thereof) is compulsorily or involuntarily converted

(1) Into property similar or related in service or use to the property so converted, no gain shall be recognized.

(2) Into money, and the disposition of the converted property occurred before January 1, 1955, no gain shall be recognized if such money is forthwith in good faith, under regulations prescribed by the commissioner, expended in the acquisition of other property similar or related in service or use to the property so converted, or in the acquisition of control of a corporation owning such other property, or in the establishment of a replacement fund. If any part of the money is not so expended, the gain shall be recognized to the extent of the money which is not so expended (regardless of whether such money is received in one or more taxable years and regardless of whether or not the money which is not so expended constitutes gain). For purposes of this paragraph and paragraph (3), the term "disposition of the converted property" means the destruction, theft, seizure, requisition, or condemnation of the converted property, or the sale or exchange of such property under threat or imminence of requisition or condemnation. *For purposes of this paragraph and paragraph (3), the term "control" means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation.*

(3) Into money or into property not similar or related in service or use to the converted property, and the disposition of the converted property (as defined in paragraph (2)) occurred after December 31, 1954, the gain (if any) shall be recognized except to the extent hereinafter provided in this paragraph:

(A) If the taxpayer during the period specified in subparagraph (B), for the purpose of replacing the property so converted, purchases other property similar or related in service or use to the property so converted, or purchases stock in the acquisition of control of a corporation owning such other property, at the election of the taxpayer the gain shall be recognized only to the extent that the amount realized upon such conversion (regardless of whether such amount is received in one or more taxable years) exceeds the cost of such other property or such stock. Such election shall be

made at such time and in such manner as the commissioner may by regulations prescribe. For purposes of this paragraph

(i) no property or stock acquired before the disposition of the converted property shall be considered to have been acquired for the purpose of replacing such converted property unless held by the taxpayer on the date of such disposition; and

(ii) the taxpayer shall be considered to have purchased property or stock only if, but for the provisions of the last paragraph of this section, the unadjusted basis of such property or stock would be its cost within the meaning of section 290.14.

(B) The period referred to in subparagraph (A) shall be the period beginning with the date of the disposition of the converted property, or the earliest date of the threat or imminence of requisition or condemnation of the converted property, whichever is the earlier, and ending

(i) one year after the close of the first taxable year in which any part of the gain upon the conversion is realized, or

(ii) subject to such terms and conditions as may be specified by the commissioner, at the close of such later date as the commissioner may designate on application by the taxpayer. Such application shall be made at such time and in such manner as the commissioner may by regulations prescribe.

(C) If a taxpayer has made the election provided in subparagraph (A), then the statutory period for the assessment of any deficiency, for any taxable year in which any part of the gain on such conversion is realized, attributable to such gain shall not expire prior to the expiration of three and one-half years from the date the commissioner is notified by the taxpayer (in such manner as the commissioner may by regulations prescribe) of the replacement of the converted property or of an intention not to replace, notwithstanding the provisions of section 290.49 or the provisions of any other law or rule which would otherwise prevent such assessment.

(D) If the election provided in subparagraph (A) is made by the taxpayer and such other property or such stock was purchased before the beginning of the last taxable year in which any part of the gain upon such conversion is realized,

any deficiency, to the extent resulting from such election, for any taxable year ending before such last taxable year may be assessed (notwithstanding the provisions of section 290.49 or the provisions of any other law or rule of law which would otherwise prevent such assessment) at any time before the expiration of the period within which a deficiency for such last taxable year may be assessed.

The preceding paragraphs shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence, thereof, occurred after December 31, 1950, and before January 1, 1955.

If the property was acquired, after January 1, 1933, as the result of a compulsory or involuntary conversion described in paragraphs (1) or (2), the basis shall be the same as in the case of the property so converted, decreased in the amount of any money received by the taxpayer which was not expended in accordance with the provisions of law (applicable to the year in which such conversion was made) determining the taxable status of the gain or loss upon such conversion, and increased in the amount of gain or decreased in the amount of loss to the taxpayer recognized upon such conversion under the law applicable to the year in which such conversion was made. This paragraph shall not apply in respect of property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, or condemnation of such residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950, and before January 1, 1955. In the case of property purchased by the taxpayer in a transaction described in paragraph (3) which resulted in the nonrecognition of any part of the gain realized as the result of a compulsory or involuntary conversion, the basis shall be the cost of such property decreased in the amount of the gain not so recognized; and if the property purchased consists of more than one piece of property, the basis determined under this sentence shall be allocated to the purchased properties in proportion to their respective costs.

Sec. 6. Minnesota Statutes 1957, Section 290.135, Subdivision 2, is amended to read:

Subd. 2. **Gain or loss on sales or exchanges in connection with certain liquidation.** (a) If:

(1) a corporation adopts a plan of complete liquidation on or after December 31, 1956, and

(2) within the 12-month period beginning on the date of the adoption of such plan, all of the assets of the corporation are distributed in complete liquidation, less assets retained to meet claims, then no gain or loss shall be recognized to such corporation from the sale or exchange by it of property within such 12-month period.

(b) (1) For purposes of clause (a), the term "property" does not include:

(A) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year, and property held by the corporation primarily for sale to customers in the ordinary course of its trade or business.

(B) installment obligations acquired in respect of the sale or exchange (without regard to whether such sale or exchange occurred before, on, or after the date of the adoption of the plan referred to in clause (a)) of stock in trade or other property described in subparagraph (A) of this paragraph, and

(C) installment obligations acquired in respect of property (other than property described in subparagraph (A)) sold or exchanged before the date of the adoption of such plan of liquidation.

(2) Notwithstanding paragraph (1) of this clause, if substantially all of the property described in subparagraph (A) of such paragraph (1) which is attributable to a trade or business of the corporation is, in accordance with this subdivision, sold or exchanged to one person in one transaction, then for purposes of clause (a) the term "property" includes:

(A) such property so sold or exchanged, and

(B) installment obligations acquired in respect of such sale or exchange.

(c) (1) This subdivision shall not apply to any sale or exchange

(A) made by a collapsible corporation (as defined in subdivision 3 (b)), or

(B) following the adoption of a plan of complete liquidation, if section 290.134, subdivision 3 applies with respect to such liquidation.

(2) In the case of a sale or exchange following the adoption of a plan of complete liquidation, if section 290.134, subdivision 2 applies with respect to such liquidation, then

(A) if the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 290.134, subdivision 4 (b) (1), this subdivision shall not apply; or

(B) if the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 290.134, subdivision 4 (b) (2), this subdivision shall apply only to that portion (if any) of the gain which is not greater than the excess of (i) that portion of the adjusted basis (adjusted for any adjustment required under the second sentence of section 290.134, subdivision 4 (b) (2)) of the stock of the liquidating corporation which is allocable, under regulations prescribed by the commissioner, to the property sold or exchanged, over (ii) the adjusted basis, in the hands of the liquidating corporation, of the property sold or exchanged.

(d) **Special rule for certain minority shareholders.** *If a corporation adopts a plan of complete liquidation on or after January 1, 1961, and if clause (a) does not apply to sales or exchanges of property by such corporation, solely by reason of the application of clause (c)(2)(A), then for the first taxable year of any shareholder (other than a corporation which meets the 80 percent stock ownership requirement specified in section 290.134, subdivision 2 (b) (1)) in which he receives distribution in complete liquidation—*

(1) the amount realized by such shareholder on the distribution shall be increased by his proportionate share of the amount by which the tax imposed by this chapter on such corporation would have been reduced if clause (c)(2)(A) had not been applicable, and

(2) for purposes of this chapter, such shareholder shall be deemed to have paid, on the last day prescribed by law for the payment of the tax imposed by this chapter on such shareholder for such taxable year, an amount of tax equal to the amount of the increase described in paragraph (1).

Sec. 7. Minnesota Statutes 1957, Section 290.135, Subdivision 3, is amended to read:

Subd. 3. **Collapsible corporations.** (a) Gain from

(1) the sale or exchange of stock of a collapsible corporation,

(2) a distribution in partial or complete liquidation of a collapsible corporation, which distribution is treated under section 290.134 and this section as in part or full payment in exchange for stock, and

(3) a distribution made by a collapsible corporation which, under section 290.131, subdivision 1 (c) (3) (A), is treated, to the extent it exceeds the basis of the stock, in the same manner as a gain from the sale or exchange of property, to the extent that it would be considered (but for the provision of this subdivision) as gain from the sale or exchange of a capital asset held for more than 6 months shall, except as provided in clause (d), be considered as gain from the sale or exchange of property which is not a capital asset.

(b) (1) For purposes of this subdivision, the term "collapsible corporation" means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in paragraph (3), or for the holding of stock in a corporation so formed or availed of, with a view to

(A) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, before the realization by the corporation manufacturing, constructing, producing or purchasing the property of a substantial part of the taxable income to be derived from such property, and

(B) the realization by such shareholders of gain attributable to such property.

(2) For purposes of paragraph (1), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if:

(A) it engaged in the manufacture, construction, or production of such property to any extent,

(B) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in

the hands of a person who manufactured, constructed, produced, or purchased the property, or

(C) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation.

(3) For purposes of this subdivision, the term "section 290.135, subdivision 3 assets" means property held for a period of less than three years which is:

(A) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year;

(B) property held by the corporation primarily for sale to customers in the ordinary course of its trade or business;

(C) unrealized receivables or fees, except receivables from sales of property other than property described in this paragraph; or

(D) property described in section 290.16, subdivision 9 (without regard to any holding perid therein provided), except such property which is or has been used in connection with the manufacture, construction, production, or sale of property described in subparagraph (A) or (B). In determining whether the three-year holding period specified in this paragraph has been satisfied, section 290.16, subdivision 8 shall apply, but no such period shall be deemed to begin before the completion of the manufacture, construction, production, or purchase.

(4) For purposes of paragraph (3) (C), the term "unrealized receivables or fees" means, to the extent not previously includible in income under the method of accounting used by the corporation, any rights (contractual or otherwise) to payment for:

(A) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

(B) services rendered or to be rendered.

(c) (1) For purposes of this subdivision, a corpora-

tion shall, unless shown to the contrary, be deemed to be a collapsible corporation if (at the time of the sale or exchange, or the distribution, described in clause (a)) the fair market value of its section 290.135, subdivision 3 assets (as defined in clause (b) (3)) is:

(A) 50 percent or more of the fair market value of its total assets, and

(B) 120 percent or more of the adjusted basis of such section 290.135, subdivision 3 assets.

Absence of the conditions described in subparagraph (A) and (B) shall not give rise to a presumption that the corporation was not a collapsible corporation.

(2) In determining the fair market value of the total assets of a corporation for purposes of paragraph (1) (A), there shall not be taken into account:

(A) cash,

(B) obligations which are capital assets in the hands of the corporation (and obligations of the United States or any of its possessions, or of a state or territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue), and

(C) stock in any other corporation.

(d) In the case of gain realized by a shareholder with respect to his stock in a collapsible corporation, this subdivision shall not apply:

(1) unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in clause (b) (3) or at any time thereafter, such shareholder (A) owned (or was considered as owning) more than five percent in value of the outstanding stock of the corporation, or (B) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than five percent in value of the outstanding stock of the corporation:

(2) to the gain recognized during a taxable year, unless more than 70 percent of such gain is attributable to the

property so manufactured, constructed, produced, or purchased; and

(3) to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase. For purposes of paragraph (1), the ownership of stock shall be determined in accordance with the rules prescribed in paragraphs (1), (2), (3), (5), and (6) of section 544 (a) of the 1954 Internal Revenue Code (relating to personal holding companies); except that, in addition to the persons prescribed by paragraph (2) of that section, the family of an individual shall include the spouses of that individual's brothers and sisters (whether by the whole or half blood) and the spouses of that individual's lineal descendents.

(e) (1) Sales or exchanges of stock. For purposes of clause (a)(1), a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange of stock of the corporation by a shareholder, if, at the time of such sale or exchange, the sum of—

(A) the net unrealized appreciation in clause (e) assets of the corporation (as defined in paragraph (5)(A)), plus

(B) if the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be clause (e) assets under (i) and (iii) of paragraph (5) (A) if the shareholder owned more than 20 percent in value of such stock, plus

(C) if the shareholder owns more than 20 percent in value of the oustanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the oustanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be clause (e) assets under (i) and (iii) of paragraph (5) (A) if the determination whether the property, in the hands of such share-

holder, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 290.16, subdivision 9, were made—

(i) by treating any sale or exchange by such shareholder of stock in such other corporation within the preceding 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation) as a sale or exchange by such shareholder of his proportionate share of the assets of such other corporation, and

(ii) by treating any sale or exchange of property by such other corporation within such 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation), gain or loss on which was not recognized to such other corporation under subdivision 2(a), as a sale or exchange by such shareholder of his proportionate share of the property sold or exchanged,

does not exceed an amount equal to 15 percent of the net worth of the corporation. This paragraph shall not apply to any sale or exchange of stock to the issuing corporation or, in the case of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, to any sale or exchange of stock by such shareholder to any person related to him (within the meaning of paragraph (8)).

(2) Distribution in liquidation. For purposes of clause (a)(2), a corporation shall not be considered to be a collapsible corporation with respect to any distribution to a shareholder pursuant to a plan of complete liquidation if, by reason of the application of paragraph (4) of this clause, subdivision 2(a) applies to sales or exchanges of property by the corporation within the 12-month period beginning on the date of the adoption of such plan, and if, at all times after the adoption of the plan of liquidation, the sum of—

(A) the net unrealized appreciation in clause (e) assets of the corporation (as defined in paragraph (5)(A)), plus

(B) if the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation described

in paragraph (1)(B) (other than assets described in subparagraph (A) of this paragraph), plus

(C) if the shareholder owns more than 20 percent in value of the oustanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the oustanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation described in paragraph (1) (C) (other than assets described in subparagraph (A) of this paragraph),

does not exceed an amount equal to 15 percent of the net worth of the corporation.

(3) Recognition of gain in certain liquidations. For purposes of section 290.134, subdivision 3, a corporation shall not be considered to be a collapsible corporation if at all times after the adoption of the plan of liquidation, the net unrealized appreciation in clause (e) assets of the corporation (as defined in paragraph (5)(B)) does not exceed an amount equal to 15 percent of the net worth of the corporation.

(4) Gain or loss on sales or exchanges in connection with certain liquidations. For purposes of subdivision 2, a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange by it of property within the 12-month period beginning on the date of the adoption of a plan of complete liquidation, if—

(A) at all times after the adoption of such plan, the net unrealized appreciation in clause (e) assets of the corporation (as defined in paragraph (5) (A)) does not exceed an amount equal to 15 percent of the net worth of the corporation,

(B) within the 12-month period beginning on the date of the adoption of such plan, the corporation sells substantially all of the properties held by it on such date, and

(C) following the adoption of such plan, no distribution is made of any property which in the hands of the corporation or in the hands of the distributee is property in

respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

This paragraph shall not apply with respect to any sale or exchange of property by the corporation to any shareholder who owns more than 20 percent in value of the outstanding stock of the corporation or to any person related to such shareholder (within the meaning of paragraph (8)), if such property in the hands of the corporation or in the hands of such shareholder or related person is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

(5) Clause (e) Asset Defined. (A) For purposes of paragraphs (1), (2), and (4), the term "clause (e) asset" means, with respect to property held by any corporation—

(i) property (except property used in the trade or business as defined in paragraph (9)) which in the hands of the corporation is, or, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 290.16, subdivision 9;

(ii) property used in the trade or business (as defined in paragraph (9)), but only if the unrealized depreciation on all such property on which there is unrealized depreciation exceeds the unrealized appreciation on all such property on which there is unrealized appreciation;

(iii) if there is net unrealized appreciation on all property used in the trade or business (as defined in paragraph (9)), property used in the trade or business (as defined in paragraph (9)) which, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 290.16, subdivision 9; and

(iv) property (unless included under (i), (ii), or (iii)) which consists of a copyright, a literary, musical, or artistic composition, or similar property, or any interest in any

such property, if the property was created in whole or in part by the personal efforts of any individual who owns more than 5 percent in value of the stock of the corporation.

The determination as to whether property of the corporation in the hands of the corporation is, or in the hands of a shareholder would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 290.16, subdivision 9 shall be made as if all property of the corporation had been sold or exchanged to one person in one transaction.

(B) For purposes of paragraph (3), the term "clause (e) asset" means, with respect to property held by any corporation, property described in (i), (ii), (iii), and (iv) of subparagraph (A), except that (i) and (iii) shall apply in respect of any shareholder who owns more than 5 percent in value of the outstanding stock of the corporation (in lieu of any shareholder who owns more than 20 percent in value of such stock).

(6) Net unrealized appreciation defined. (A) For purposes of this clause, the term "net unrealized appreciation" means, with respect to the assets of a corporation, the amount by which—

(i) the unrealized appreciation in such assets on which there is unrealized appreciation, exceeds

(ii) the unrealized depreciation in such assets on which there is unrealized depreciation.

(B) For purposes of subparagraph (A) and paragraph (5)(A), the term "unrealized appreciation" means, with respect to any asset, the amount by which—

(i) the fair market value of such asset, exceeds

(ii) the adjusted basis for determining gain from the sale or other disposition of such asset.

(C) For purposes of subparagraph (A) and paragraph (5)(A), the term "unrealized depreciation" means, with respect to any asset, the amount by which—

(i) the adjusted basis for determining gain from the sale or other disposition of such asset, exceeds

(ii) the fair market value of such asset.

(D) For purposes of this paragraph (but not paragraph (5)(A)), in the case of any asset on the sale or exchange of which only a portion of the gain would under any provision of this chapter be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 290.16, subdivision 9, there shall be taken into account only an amount of the unrealized appreciation in such asset which is equal to such portion of the gain.

(7) Net worth defined. For purposes of this clause, the net worth of a corporation, as of any day, is the amount by which—

(A) (i) the fair market value of all its assets at the close of such day, plus

(ii) the amount of any distribution in complete liquidation made by it on or before such day, exceeds

(B) all its liabilities at the close of such day.

For purposes of this paragraph, the net worth of a corporation as of any day shall not take into account any increase in net worth during the one-year period ending on such day to the extent attributable to any amount received by it for stock, or as a contribution to capital or as paid-in surplus, if it appears that there was not a bona fide business purpose for the transaction in respect of which such amount was received.

(8) Related person defined. For purposes of paragraph (1) and (4), the following persons shall be considered to be related to a shareholder:

(A) If the shareholder is an individual—

(i) his spouse, ancestors, and lineal descendants, and

(ii) a corporation which is controlled by such shareholder.

(B) If the shareholder is a corporation—

(i) a corporation which controls, or is controlled by, the shareholder, and

(ii) if more than 50 percent in value of the outstanding stock of the shareholder is owned by any person a corporation more than 50 percent in value of the outstanding stock of which is owned by the same person.

For purposes of determining the ownership of stock in applying subparagraph (A) and (B), the rules of section 267(c) of the Internal Revenue Code of 1954, as amended shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants. For purposes of this paragraph, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

(9) Property used in the trade or business. For purposes of this clause, the term "property used in the trade or business" means property described in section 290.16, subdivision 9, without regard to any holding period therein provided.

(10) Ownership of stock. For purposes of this clause (other than paragraph (8)), the ownership of stock shall be determined in the manner prescribed in clause (d).

(11) Corporations and shareholders not meeting requirements. In determining whether or not any corporation is a collapsible corporation within the meaning of clause (b), the fact that such corporation, or such corporation with respect to any of its shareholders, does not meet the requirements of paragraph (1), (2), (3), or (4) of this clause shall not be taken into account, and such determination, in the case of a corporation which does not meet such requirements, shall be made as if this clause had not been enacted.

Sec. 8. Minnesota Statutes 1957, Section 290.136, Subdivision 6, is amended to read:

Subd. 6. **Basis to distributees.** (a) In the case of an exchange to which subdivisions 1, 2, 3, 4, 7 or section 290.137, subdivision 1 (b) applies:

(1) The basis of the property permitted to be received under such subdivision without the recognition of gain or loss shall be the same as that of the property exchanged;

(A) decreased by;

(i) the fair market value of any other property (except money) received by the taxpayer, and

(ii) the amount of any money received by the taxpayer, and

(iii) the amount of loss to the taxpayer which was recognized on such exchange, and

(B) increased by;

(i) the amount which was treated as a dividend, and

(ii) the amount of gain to the taxpayer which was recognized on such exchange (not including any portion of such gain which was treated as a dividend).

(2) The basis of any other property (except money) received by the taxpayer shall be its fair market value.

(b) (1) Under regulations prescribed by the commissioner, the basis determined under clause (a) (1) shall be allocated among the properties permitted to be received without the recognition of gain or loss.

(2) In the case of an exchange to which subdivision 3 (or so much of subdivision 4 as relates to subdivision 3) applies, then in making the allocation under paragraph (1) of this clause, there shall be taken into account not only the property so permitted to be received without the recognition of gain or loss, but also the stock or securities (if any) of the distributing corporation which are retained, and the allocation of basis shall be made among all such properties.

(c) For purposes of this subdivision, a distribution to which subdivision 3 (or so much of subdivision 4 as relates to subdivision 3) applies shall be treated as an exchange, and for such purposes the stock and securities of the distributing corporation which are retained shall be treated as surrendered, and received back, in the exchange.

(d) Where, as part of the consideration to the taxpayer, another party to the exchange assumed a liability of the taxpayer or acquired from the taxpayer property subject to a liability such assumption or acquisition (in the amount of the liability) shall, for purposes of this subdivision, be treated as money received by the taxpayer on the exchange.

(e) This subdivision shall not apply to property acquired by a corporation by the issuance of its stock or securities as consideration in whole or in part for the transfer of the property to it.

Sec. 9. Minnesota Statutes 1957, Section 290.16, Subdivision 7, is amended to read:

Subd. 7. **Bonds, other evidences of indebtedness.** (1) For the purpose of this section, amounts received by the holder upon the retirement of bonds, debentures, notes or certificates or other evidences of indebtedness, which are capital assets in the hands of the taxpayer, and which are issued by any corporation (including those issued by a government or political subdivision thereof), shall be considered as amounts received in exchange therefor (except that in the case of bonds or other evidences of indebtedness issued before January 1, 1955, this paragraph shall apply only to those issued with interest coupons or in registered form, or to those in such form on March 1, 1954).

(2) (a) Except as provided in subparagraph (b), upon sale or exchange of bonds or other evidences of indebtedness as described in paragraph (1), issued after December 31, 1954, held by the taxpayer more than six months, any gain realized which does not exceed ~~an amount which bears the same ratio to the original issue discount (as defined in paragraph (3)) as the number of complete months that the bond or other evidences of indebtedness was held by the taxpayer bears to the number of complete months from the date of original deeds to the date of maturity, shall be considered as gain from the sale or exchange of property which is not a capial asset. Gain in excess of such amount shall be considered gain from the sale or exchange of a capital asset held more than six months.~~

(i) an amount equal to the original issue discount (as defined in paragraph (3)), or

(ii) if at the time of original issue there was no intention to call the bond or other evidence of indebtedness before maturity, an amount which bears the same ratio to the original issue discount (as defined in paragraph (3)) as the number of complete months that the bond or other evidence of indebtedness was held by the taxpayer bears to the number of complete months from the date of original issue to the date of maturity,

shall be considered as gain from the sale or exchange of property which is not a capital asset. Gain in excess of such amount shall be considered gain from the sale or exchange of a capital asset held more than 6 months.

(b) Subparagraph (a) shall not apply to obligations the interest on which is not includible in gross income under section 290.08(6) and (7) (relating to certain governmental

obligations), or any holder who has purchased the bond or other evidence of indebtedness at a premium.

(c) ~~In the case of obligations with respect to which the taxpayer has made an election provided by section 290.071, subdivision 1 (relating to accounting rules for certain obligations issued at a discount), this subdivision shall not require the inclusion of any amount previously includible in gross income.~~

Double inclusion in income not required. This section shall not require the inclusion of any amount previously includible in gross income.

(3) (a) For purposes of paragraphs (1) and (2), the term "original issue discount" means the difference between the issue price and the stated redemption price at maturity. If the original issue discount is less than one-fourth of one percent of the redemption price at maturity multiplied by the number of complete years to maturity, then the issue discount shall be considered to be zero. For purposes of this paragraph, the term "stated redemption price at maturity" means the amount fixed by the last modification of the purchase agreement and includes dividends payable at that time.

(b) In the case of issues of bonds or other evidences of indebtedness registered with the United States Securities and Exchange Commission, the term "issue price" means the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of such bonds or other evidences of indebtedness were sold. In the case of privately placed issues of bonds or other evidence of indebtedness, the issue price of each such bond or other evidence of indebtedness is the price paid by the first buyer of such bond. For purposes of this paragraph, the terms "initial offering price" and "price paid by the first buyer" include the aggregate payments made by the purchaser under the purchase agreement, including modifications thereof.

(c) In the case of issues of bonds or other evidences of indebtedness registered with the United States Securities and Exchange Commission, the term "date of original issue" means the date on which the issue was first sold to the public at the issue price. In the case of privately placed issues of bonds or other evidences of indebtedness, the term "date of original issue" means the date on which each such bond or other evidence of indebtedness was sold by the issuer.

(4) if—

(a) a bond or other evidence of indebtedness issued at any time with interest coupons is purchased after the date of enactment of this act, and

(b) the purchaser does not receive all the coupons which ~~first~~ become payable ~~more than 12 months~~ after the date of the purchase.

then the gain on the sale or other disposition of such evidence of indebtedness by such purchaser shall be considered as gain from the sale or exchange of property which is not a capital asset to the extent that the market value (determined as of the time of the purchase) of the evidence of indebtedness with coupons attached exceeds the purchase price. If this paragraph and paragraph (2) (a) apply with respect to gain realized on the retirement of any bond, then paragraph (2) (a) shall apply with respect to that part of the gain to which this paragraph does not apply.

Sec. 10. Minnesota Statutes 1957, Section 290.16, Subdivision 9, is amended to read:

Subd. 9. **Property used in trade or business.** (1) For the purposes of this subdivision, the term "property used in the trade or business" means property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 290.09 (6), held for more than six months, and real property used in the trade or business, held for more than six months, which is not (A) property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year, or (B) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business. Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding or dairy purposes, and held by him for 12 months or more from the date of acquisition. Such term does not include poultry.

(2) If, during the taxable year, the recognized gains upon sale or exchanges of property used in the trade or business, plus the recognized gains from the compulsory or involuntary conversion (as a result of destruction in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property used in the trade or business and capital assets held for more than six months into other property or money, exceed the recognized losses from such sales, exchanges, and conversions, such gains and losses shall be considered as

gains and losses from sales or exchanges of capital assets held for more than six months. If such gains do not exceed such losses, such gains and losses shall not be considered as gains and losses from sales or exchanges of capital assets. For the purposes of this paragraph:

(A) In determining under this paragraph whether gains exceed losses, the gains and losses described therein shall be included only if and to the extent taken into account in computing net income, except that subdivision 4 and 5 shall not apply.

(B) Losses upon the destruction, in whole or in part, theft or seizure, or requisition or condemnation of property used in the trade or business or capital assets held for more than six months shall be considered losses from a compulsory or involuntary conversion.

In the case of any property used in the trade or business and of any capital asset held for more than 6 months and held for the production of income, this subdivision shall not apply to any loss, in respect of which the taxpayer is not compensated for by insurance in any amount, arising from fire, storm, shipwreck, or other casualty, or from theft.

Gain from the sale or exchange of property, to the extent that the adjusted basis of such property is less than the adjusted basis without regard to the provisions of section 290.09(12) (relating to amortization deduction), shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in this subdivision.

Sec. 11. Minnesota Statutes 1957, Section 290.16, Subdivision 12, is amended to read:

Subd. 12. ~~Short sales. (a) For the purposes of this section gain or loss from the short sale of property, other than a hedging transaction in commodity futures, shall be considered as gain or loss from the sale or exchange of a capital asset to the extent that the property, including a commodity future, used to close the short sale constitutes a capital asset in the hands of the taxpayer.~~

~~(b) If gain or loss from a short sale is considered as gain or loss from the sale or exchange of a capital asset under paragraph (a) and if on the date of such short sale substantially identical property has been held by the taxpayer for not more than six months, or if substantially identical~~

Changes or additions indicated by *italics*, deletions by ~~strikeout~~.

~~property is acquired by the taxpayer after such short sale and on or before the date of the closing thereof, any gain upon the closing of such short sale shall be considered as a short term capital gain (notwithstanding the period of time any property used to close such short sale has been held). In such case the holding period of the substantially identical property held by the taxpayer on the date of the short sale shall be considered to begin (notwithstanding the provisions of paragraph 4 of subdivision 8 of this section) on the date of the closing of the short sale or on the date of a sale, gift or other disposition of such property, whichever date occurs first, but shall apply only to so much of such property as does not exceed the quantity sold short in the order of the date of the acquisition of such property. For the purposes of this paragraph, the acquisition of an option to sell property at a fixed price shall be considered a short sale, and the exercise of or failure to exercise such option shall be considered as a closing of such short sale. This paragraph shall not include an option to sell property at a fixed price acquired on the same day on which the property identified as intended to be used in exercising such option is acquired and which, if exercised, is exercised through the sale of the property so identified. If the option is not exercised, the cost of the option shall be added to the basis of the property with which the option is identified. This paragraph shall apply only to options acquired after the date of the enactment of this subdivision.~~

~~(c) If on the date of a short sale substantially identical property has been held by the taxpayer for more than six months, any loss upon the closing of such short sale shall be considered as a long term capital loss (notwithstanding the period of time any property used to close such short sale has been held, and notwithstanding the provisions of paragraph (a) of this subdivision).~~

~~(d) For the purposes of this subdivision~~

~~(1) The term "property" includes only stocks and securities (including stocks and securities dealt with on a "when issued" basis), and commodity futures, which are capital assets in the hands of the taxpayer.~~

~~(2) In the case of futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange, a commodity future requiring delivery in one calendar month shall not be considered as property sub-~~

~~stantially identical to another commodity future requiring delivery in a different calendar month, and~~

~~(3) In the case of a short sale of property by an individual, the term "taxpayer" shall be read as "taxpayer or his spouse," but an individual who is legally separated from the taxpayer under a decree of divorce or separate maintenance shall not be considered as the spouse of the taxpayer.~~

~~(c) Where the taxpayer enters into two commodity futures transactions on the same day, one requiring delivery by him in one market and the other requiring delivery to him of the same (or substantially identical) commodity in the same calendar month in a different market, and the taxpayer subsequently closes both such transactions on the same day, this subdivision shall have no application to so much of the commodity involved in either such transaction as does not exceed in quantity the commodity involved in the other.~~

~~(f) Neither the provisions of paragraphs (b) or (c) shall apply to the gain or loss, respectively, on any quantity of property used to close a short sale which is in excess of the quantity of the substantially identical property referred to in the applicable paragraph.~~

Gains and losses from short sales.

(a) **Capital assets.** *For purposes of this chapter, gain or loss from the short sale of property shall be considered as gain or loss from the sale or exchange of a capital asset to the extent that the property, including a commodity future, used to close the short sale constitutes a capital asset in the hands of the taxpayer.*

(b) **Short-term gains and holding periods.** *If gain or loss from a short sale is considered as gain or loss from the sale or exchange of a capital asset under clause (a) and if on the date of such short sale substantially identical property has been held by the taxpayer for not more than 6 months (determined without regard to the effect, under paragraph (2), of such short sale on the holding period), or if substantially identical property is acquired by the taxpayer after such short sale and on or before the date of the closing thereof—*

(1) any gain on the closing of such short sale shall be considered as a gain on the sale or exchange of a capital asset held for not more than 6 months (notwithstanding the

period of time any property used to close such short sale has been held); and

(2) the holding period of such substantially identical property shall be considered to begin (notwithstanding section 290.16, subdivision 8, relating to the holding period of property) on the date of the closing of the short sale, or on the date of a sale, gift, or other disposition of such property, whichever date occurs first. This paragraph shall apply to such substantially identical property in the order of the dates of the acquisition of such property, but only to so much of such property as does not exceed the quantity sold short.

For purposes of this clause, the acquisition of an option to sell property at a fixed price shall be considered as a short sale, and the exercise or failure to exercise such option shall be considered as a closing of such short sale.

(c) **Certain options to sell.** *Clause (b) shall not include an option to sell property at a fixed price acquired on the same day on which the property identified as intended to be used in exercising such option is acquired and which, if exercised, is exercised through the sale of the property so identified. If the option is not exercised, the cost of the option shall be added to the basis of the property with which the option is identified. This clause shall apply only to options acquired after the date of enactment of this act.*

(d) **Long-term losses.** *If on the date of such short sale substantially identical property has been held by the taxpayer for more than 6 months, any loss on the closing of such short sale shall be considered as a loss on the sale or exchange of a capital asset held for more than 6 months (notwithstanding the period of time any property used to close such short sale has been held, and notwithstanding section 290.16, subdivision 13).*

(e) **Rules for application of section.**

(1) Clauses (b) (1) or (d) shall not apply to the gain or loss, respectively, on any quantity of property used to close such short sale which is in excess of the quantity of the substantially identical property referred to in the applicable clause.

(2) For purposes of clauses (b) and (d)—

(A) the term "property" includes only stocks and securities (including stocks and securities dealt with on a "when

issued" basis), and commodity futures, which are capital assets in the hands of the taxpayer;

(B) in the case of futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange, a commodity future requiring delivery in 1 calendar month shall not be considered as property substantially identical to another commodity future requiring delivery in a different calendar month; and

(C) in the case of a short sale of property by an individual, the term "taxpayer", in the application of this clause and clauses (b) and (d), shall be read as "taxpayer or his spouse"; but an individual who is legally separated from the taxpayer under a decree of divorce or of separate maintenance shall not be considered as the spouse of the taxpayer.

(3) Where the taxpayer enters into 2 commodity futures transactions on the same day, one requiring delivery by him in one market and the other requiring delivery to him of the same (or substantially identical) commodity in the same calendar month in a different market, and the taxpayer subsequently closes both such transactions on the same day, clauses (b) and (d) shall have no application to so much of the commodity involved in either such transaction as does not exceed in quantity the commodity involved in the other.

(4) (A) In the case of a taxpayer who is a dealer in securities (within the meaning of section 1236 of the Internal Revenue Code of 1954, as amended)—

(i) If, on the date of a short sale of stock, substantially identical property which is a capital asset in the hands of the taxpayer has been held for not more than 6 months, and

(ii) if such short sale is closed more than 20 days after the date on which it was made,

clause (b) (2) shall apply in respect of the holding period of such substantially identical property.

(B) For purposes of subparagraph (A)—

(i) the last sentence of clause (b) applies; and

(ii) the term "stock" means any share or certificate of stock in a corporation, any bond or other evidence of indebtedness which is convertible into any such share or cer-

tificate, or any evidence of an interest in, or right to subscribe to or purchase, any of the foregoing.

(f) **Arbitrage operations in securities.** *In the case of a short sale which had been entered into as an arbitrage operation, to which sale the rule of clause (b) (2) would apply except as otherwise provided in this clause—*

(1) clause (b) (2) shall apply first to substantially identical assets acquired for arbitrage operations held at the close of business on the day such sale is made, and only to the extent that the quantity sold short exceeds the substantially identical assets acquired for arbitrage operations held at the close of business on the day such sale is made, shall the holding period of any other such identical assets held by the taxpayer be affected;

(2) in the event that assets acquired for arbitrage operations are disposed of in such manner as to create a net short position in assets acquired for arbitrage operations, such net short position shall be deemed to constitute a short sale made on that day:

(3) for the purposes of paragraphs (1) and (2) of this clause the taxpayer will be deemed as of the close of any business day to hold property which he is or will be entitled to receive or acquire by virtue of any other asset acquired for arbitrage operations or by virtue of any contract he has entered into in an arbitrage operation; and

(4) for the purpose of this clause arbitrage operations are transactions involving the purchase and sale of assets for the purpose of profiting from a current difference between the price of the asset purchased and the price of the asset sold, and in which the asset purchased, if not identical to the assets sold, is such that by virtue thereof the taxpayer is, or will be, entitled to acquire assets identical to the assets sold. Such operations must be clearly identified by the taxpayer in his records as arbitrage operations on the day of the transaction or as soon thereafter as may be practicable. Assets acquired for arbitrage operations will include stocks and securities and the right to acquire stocks and securities.

(g) **Hedging transactions.** *This subdivision shall not apply in the case of a hedging transaction in commodity futures.*

Sec. 13. Minnesota Statutes 1957, Section 290.16, Subdivision 13, is amended to read:

Subd. 13. ~~Options. Gain or loss attributable to the sale or exchange of, or loss on failure to exercise, a privilege or option to buy or sell property which in the hands of the taxpayer constitutes (or if acquired would constitute) a capital asset shall be considered gain or loss from the sale or exchange of a capital asset; and, if the loss is attributable to failure to exercise such privilege or option, the privilege or option shall be deemed to have been sold or exchanged on the day it expired. This subdivision shall not apply to losses on failure to exercise options described in subdivision 11(b).~~

Options to buy or sell.

(a) **Treatment of gain or loss.** *Gain or loss attributable to the sale or exchange of, or loss attributable to failure to exercise, a privilege or option to buy or sell property shall be considered gain or loss from the sale or exchange of property which has the same character as the property to which the option or privilege relates has in the hands of the taxpayer (or would have in the hands of taxpayer if acquired by him).*

(b) **Special rule for loss attributable to failure to exercise option.** *For purposes of clause (a), if loss is attributable to failure to exercise a privilege or option, the privilege or option shall be deemed to have been sold or exchanged on the day it expired.*

(c) **Non-application of subdivision.** *This subdivision shall not apply to—*

(1) a privilege or option which constitutes property described in section 290.16, subdivision 3 (1)(a);

(2) in the case of gain attributable to the sale or exchange of a privilege or option, any income derived in connection with such privilege or option which, without regard to this subdivision, is treated as other than gain from the sale or exchange of a capital asset;

(3) a loss attributable to failure to exercise an option described in section 290.16, subdivision 12(c); or

(4) gain attributable to the sale or exchange of a privilege or option acquired by the taxpayer before December 31, 1960, if in the hands of the taxpayer such privilege or option is a capital asset.

Sec. 14. Minnesota Statutes 1957, Section 290.08, as

amended by Extra Session Laws 1959, Chapter 70, Article III, Section 1, is amended by adding a new subdivision to read:

[Subd. 22.] Taxability of beneficiary under annuity purchased by section 290.21(b) organization.

(1) **General rule.** *If—*

(A) an annuity contract is purchased for an employee by an employer described in section 290.21(b) which is exempt from tax under section 290.05(9), and

(B) the employee's rights under the contract are nonforfeitable, except for failure to pay future premiums,

then amounts contributed by such employer for such annuity contract on or after such rights become nonforfeitable shall be excluded from the gross income of the employee for the taxable year to the extent that the aggregate of such amounts does not exceed the exclusion allowance for such taxable year. The employee shall include in his gross income the amounts received under such contract for the year received as provided in section 290.08, subdivision 4 (relating to annuities) except that section 290.08, subdivision 4 (e) (iii) shall not apply.

(2) **Exclusion allowance.** *For purposes of this subdivision, the exclusion allowance for any employee for the taxable year is an amount equal to the excess, if any, of—*

(A) the amount determined by multiplying (i) 20 percent of his includible compensation by (ii) the number of years of service, over

(B) the aggregate of the amounts contributed by the employer for annuity contracts and excludable from the gross income of the employee for any prior taxable year.

(3) **Includible compensation.** *For purposes of this subdivision, the term "includible compensation" means, in the case of any employee, the amount of compensation which is received from the employer described in section 290.21(b) and exempt from tax under section 290.05(9), and which is includible in gross income (computed without regard to sections 290.08, subdivision 5 (relating to wage continuation plans) for the most recent period (ending not later than the close of the taxable year) which under paragraph (4) may be counted as one year of service. Such term does not include any amount contributed by the employer for any annuity contract to which this subdivision applies.*

(4) **Years of service.** *In determining the number of years of service for purposes of this subdivision, there shall be included—*

(A) one year for each full year during which the individual was a full-time employee of the organization purchasing the annuity for him, and

(B) a fraction of a year (determined in accordance with regulations prescribed by the commissioner) for each full year during which such individual was a part-time employee of such organization and for each part of a year during which such individual was a full-time or part-time employee of such organization.

In no case shall the number of years of service be less than one.

(5) **Application to more than one annuity contract.** *If for any taxable year of the employee this subdivision applies to 2 or more annuity contracts purchased by the employer, such contracts shall be treated as one contract.*

(6) **Forfeitable rights which become nonforfeitable.** *For purposes of this subdivision and section 290.08, subdivision 4(f) (relating to special rules for computing employees' contributions to annuity contracts), if rights of the employee under an annuity contract described in subparagraphs (A) and (B) of paragraph (1) change from forfeitable to nonforfeitable rights, then the amount (determined without regard to this subdivision) includible in gross income by reason of such change shall be treated as an amount contributed by the employer for such annuity contract as of the time such rights become nonforfeitable.*

Approved April 20, 1961.

CHAPTER 502—S. F. No. 1283

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1957, Section 290.09, as amended.

Be it enacted by the Legislature of the State of Minnesota:

Section 1. Minnesota Statutes 1957, Section 290.09, as amended by Extra Session Laws 1959, Chapter 70, Article III, Section 7, and Article XI, is amended to read: