CHAPTER 8014
DEPARTMENT OF REVENUE
INCOME AND FRANCHISE TAXES
DETERMINATION OF BASIS

8014.0100 ADJUSTMENTS TO BASIS.

Subpart 1. **In general.** The cost or other basis shall be properly adjusted for any expenditure, receipt, loss, or other item, properly chargeable to the capital account, including the cost of improvements and betterments made to the property. Carrying charges, such as taxes and interest, are not properly chargeable to the capital account even though they have not been taken as a deduction by the taxpayer and even though they were incurred on unimproved and unproductive real property.

The cost or other basis must also be decreased by the amount of the deductions for exhaustion, wear and tear, obsolescence, amortization, and depletion allowed or allowable under the Minnesota Income Tax Act. Such amount shall not be less than the amount allowable. A taxpayer is not permitted to take advantage in a later year of prior failure to take any depreciation allowance or of action in taking an allowance plainly inadequate under the facts known at the time. In addition, if the property was acquired before January 1, 1933, the basis (if other than the fair market value as of January 1, 1933) shall be diminished by the depreciation actually sustained before January 1, 1933. For example, if a taxpayer sells non–income–producing property such as the taxpayer's residence which has not been subject to the depreciation allowance under the Minnesota Income Tax Act, the basis need not be diminished because of the depreciation sustained after January 1, 1933. However, the basis must be diminished for depreciation actually sustained prior to January 1, 1933.

If a person or organization was not subject to taxation under the Minnesota Income Tax Act during some period after December 31, 1932, but subsequently became subject to taxation, such person or organization must adjust the cost or other basis of its property for the exhaustion, wear and tear, obsolescence, amortization, and depletion actually sustained during the period it was not subject to taxation. This requirement applies to all taxable years beginning after December 31, 1954. If such person or organization acquired property prior to January 1, 1933, the basis of such property (if the basis is other than fair market value as of January 1, 1933) must also be adjusted for depreciation, etc., actually sustained during the period beginning on the date of acquisition of the property and ending December 31, 1932.

In the case of the stock of a subsidiary company, the basis thereof must be adjusted for the amount of the subsidiary company's loss for the years in which consolidated returns were made.

Subp. 2. **Period for which adjustments are applicable.** If, in accordance with the provisions of Minnesota Statutes, sections 290.14 and 290.15, the basis used is the cost of the property, then such basis must be adjusted as provided in Minnesota Statutes, section 290.12, subdivision 2, for the period from the date of purchase (by the taxpayer or otherwise) to the date of sale or other disposition.

However, if the basis used is the fair market value of the property as of a certain date (as provided in Minnesota Statutes, sections 290.14 and 290.15), then such adjustments must be made only from the date for which the fair market value was determined to the date of sale or other disposition.

These rules are applied in the following example: A realizes a gain on disposition of property in 1940 which A acquired by gift from B in 1930. B had paid $2,000 for the property in January 1925. A, in computing the gain realized, elects to use cost as the basis. Under the provisions of Minnesota Statutes, section 290.15 the amount B paid for the property in 1925 is deemed to be A's cost, and, therefore, such cost must be adjusted as provided in this part from January 1925, to the date of sale. If A had elected or was required under the provisions of Minnesota Statutes, sections 290.14 and 290.15 to use as a basis the fair market value of the property as of January 1, 1933, or other date, then the adjustments are applicable only from such date to the date of sale or other disposition.

Subp. 3. **Reduction in basis of new residence.** A reduction of the basis of a new residence shall be made, where the purchase of a new residence results, under Minnesota Statutes, section 290.13, in the nonrecognition of any part of the gain realized upon the sale of an old residence. The adjustment to basis shall include a reduction by an amount equal to the amount of the gain which was not recognized upon the sale of the old residence. Such a reduction is not to be made for the purpose of determining the adjusted basis of the new residence as of any time preceding the sale of the old residence. For the purpose of this determination, the amount of the gain not recognized under this part upon the sale of the old residence includes only so much of the gain as is not recognized because of the taxpayer's cost, up to the date of the determination of the adjusted basis, of purchasing the new residence.

For example: On January 1, 1953, the taxpayer buys a new residence for $10,000. On March 1, 1953, the taxpayer sells for $15,000 the old residence which has an adjusted basis of $5,000. During April a wing is constructed on the new house at a cost of $5,000 and in May the taxpayer builds a garage at a cost of $2,000. The basis of the new residence during January and February is the cost of $10,000. This basis is reduced to $5,000 on March 1. This reduced basis represents the difference between the cost of $10,000 and $5,000 which is the portion of the gain which at this point has been reinvested in the new residence. The adjusted basis during April remains $5,000, because the additional investment of $5,000 in the improvement to the new residence offsets the remaining $5,000 of the gain. The basis during May and the following months is increased to $7,000 by the investment of $2,000 in the garage.

Subp. 4. **Adjustments where property is acquired by exchange and wash sale transactions.** In the case of the sale or other disposition of property acquired in an exchange of the kind specified in Minnesota Statutes, section 290.13, subdivision 1, the adjustments to the basis as provided in Minnesota Statutes, section 290.12, subdivision 2, must be made to the extent to which the taxpayer would be required to make them were the taxpayer selling or otherwise disposing of the property exchanged in any such transaction.

Subp. 5. **Gain realized in cases where property is not sold or disposed of.** Even though property is not sold or otherwise disposed of, gain (includible in gross income under Minnesota Statutes, section 290.01, subdivision 20) is realized if the sum of all the amounts received which are required by this part to be applied against the basis of the property exceeds such basis. Such amounts must be included in gross income to the extent that the basis is exceeded in the year received.

Statutory Authority: *MS s 290.52*

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8014.1000 [Repealed, L 1987 c 268 art 1 s 128]

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8014.2000 [Repealed, L 1987 c 268 art 1 s 128]