

tax; and during the seventh and each succeeding year of vehicle life, the tax shall be 25 per cent of the foregoing scheduled tax; provided that the annual tax paid in any year of its life for an intercity bus shall be not less than \$350 for a vehicle of over 25 passenger seating capacity and not less than \$250 for a vehicle of 25 passenger and less seating capacity.

7. Trailers, except farm trailers described in paragraph 4b and except two-wheel trailers described in paragraph 2, shall be taxed on the basis of \$4.00 per ton or fraction thereof of the carrying capacity of such trailer, but in any event not less than \$4.00 per vehicle. The maximum load at any time carried on any trailer shall be deemed prima facie the carrying capacity thereof.

8. Motor vehicles specially equipped for operation over snow and used exclusively for such purposes [;] \$3.00 if weighing one ton or less, and an additional \$2.00 for each additional ton or fraction thereof.

Approved April 20, 1951.

CHAPTER 577—H. F. No. 1000

[Coded as Section 290.078]

An act relating to taxes on and measured by net income; providing for the taxability of restricted stock options.

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

[290.078] Section 1. **Restricted stock options.** Subdivision 1. 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 with respect to the share so transferred; and

(3) no amount other than the option price 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 (B) the option is exercised by him within three months after the date he ceases to be an employee of any of such corporation.

Subd. 2. If no disposition of a share of stock acquired by an individual upon his exercise after 1950 of a restricted stock option 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, but, at the time the restricted stock option was granted, the option price was less than 95 per centum of the fair market value at such time of such share, then, in the event of any disposition of such share by him, or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever is applicable, an amount equal to the amount (if any) by which the option price is exceeded by the lesser of

(1) the fair market value of the share at the time of such disposition or death, or

(2) the fair market value of the share at the time the option was granted.

In the case of the disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

Subd. 3. If stock transferred to an individual upon his exercise of the option is exchanged by him for stock or securi-

ties in an exchange within the provisions of section 290.13, subdivision 1, clauses (2) or (3), or if a stock dividend, as described in section 290.14 (8), is acquired upon a distribution with respect to such stock, the stock or securities acquired in such exchange and such stock dividend shall be considered as having been transferred to him upon his exercise of such option. A similar rule shall be applied in the case of a series of such exchanges or acquisitions.

Subd. 4. As used in this section

(1) The term "restricted stock option" means an option granted after February 26, 1945, to an individual, for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if

(A) At the time such option is granted the option price is at least 85 per centum of the fair market value at such time of the stock subject to the option; and

(B) Such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him; and

(C) Such individual, at the time the option is granted, does not own stock possessing more than 10 per centum of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation. For the purposes of this subparagraph

(i) such individual shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

(ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries.

(2) The term "parent corporation" means any corporation (other than the employer corporation) in an unbroken

chain of corporations ending with the employer corporation if, at the time of granting of the option, each of the corporations other than the employer corporation owns stock possessing more than 50 per centum of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(3) The term "subsidiary corporation" means any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing more than 50 per centum of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(4) The term "disposition" includes a sale, exchange, gift, or any transfer of legal title, but does not include

(A) a transfer from a decedent to his estate or a transfer by bequest or inheritance;

(B) an exchange which is within the provisions of section 290.13, subdivision 1, clauses (2) or (3); or

(C) a mere pledge or hypothecation.

Subd. 5. For the purposes of subdivision 4, if the terms of any option to purchase stock are modified, extended, or renewed, the following rules shall be applied with respect to transfers of stock made upon an exercise of the option after the making of such modification, extension, or renewal;

(1) Such modification, extension, or renewal shall be considered as the granting of a new option;

(2) The fair market value of such stock at the time of the granting of such option shall be considered as (A) the fair market value of such stock on the date of the original granting of the option, (B) the fair market value of such stock on the date of the making of such modification, extension, or renewal, or (C) the fair market value of such stock at the time of the making of any intervening modification, extension, or removal, whichever in [is] the highest.

Sec. 2. [Subd. 6] **Application.** The provisions of this chapter are applicable to all taxable years beginning after December 31, 1950.

Approved April 20, 1951.

CHAPTER 578—H. F. No. 1032

An act relating to taxes on or measured by net income: amending Minnesota Statutes 1949, Section 290.075.

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

Section 1. Minnesota Statutes 1949, Section 290.075, is amended to read:

290.075 Renegotiated war contracts adjusted. Any taxpayer who supplies any goods, wares and merchandise or performs services, or both, under any contract, with the United States of America, or under any subcontract thereunder, or under a cost-plus-a-fixed-fee contract with the United States of America, or any agency thereof and who is subject to renegotiations under the renegotiation laws of the United States of America, or is required to renegotiate with his subcontractor, shall be required to adjust his or its Minnesota income and franchise tax liability in accordance with the following rules:

A return shall be filed and the income and franchise tax computed, on the basis of the Minnesota taxable net income without giving effect to any renegotiations occurring after the close of the taxable year. If after the close of the taxable year there is a final determination under renegotiation, the difference between (1) the amount determined by the renegotiation to be (a) excess profits, (b) excess fees under a fixed fee contract with the United States, or any agency thereof, or (c) the amount of any item for which the taxpayer has been reimbursed but which is disallowed as an item or cost chargeable to a fixed fee contract, and (2) the amount of federal income and excess profits taxes applicable thereto, shall be allowed as a deduction from gross income in the taxable year