

(16) *In the case of a corporation, gross income does not include any contribution to the capital of the taxpayer.*

Sec. 2. Applicability. *The provisions of this chapter are applicable to all taxable years beginning after December 31, 1954.*

Approved March 18, 1955.

CHAPTER 191—H. F. No. 383

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1953, Section 290.14.

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

Section 1. Minnesota Statutes 1953, Section 290.14, is amended to read:

290.14 Basis for determining gain or loss. The basis for determining the gain or loss from the sale or other disposition of property acquired on or after January 1, 1953, shall be the cost to the taxpayer of such property, with the following exceptions:

(1) If the property should have been included in the last inventory, it shall be the last inventory value thereof;

(2) If the property was acquired by gift, it shall be the same as it would be if it were being sold or otherwise disposed of by the last preceding owner not acquiring it by gift; if the facts required for this determination cannot be ascertained, it shall be the fair market value as of the date, or approximate date, of acquisition by such last preceding owner, as nearly as the requisite facts can be ascertained by the commissioner;

(3) If the property was acquired by gift through an inter vivos transfer in trust, it shall be the same as it would be if it were being sold or otherwise disposed of by the grantor;

(4) If the property was acquired by devise, bequest or inheritance, or by the estate of a decedent from such decedent, it shall be the fair market value at the date of the decedent's death, and, for the purpose of this clause, an inter vivos transfer in trust made by the decedent in which he reserved the income, or the control thereof, to himself for his life and a power of revoking the trust, shall be treated as a disposition

by will at his death of the property transferred on such trust terms;

(5) If the property was acquired after December 31, 1932, upon an exchange described in section 290.13, subdivisions 1 to 4, the basis, except as provided in clause (6) of this section, shall be the same as in the case of the property exchanged, decreased in the amount of any money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized upon such exchange under the law applicable to the year in which the exchange was made. If the property so acquired consisted in part of the type of property permitted by section 290.13, subdivision 1, to be received without the recognition of gain or loss, and in part of other property, the basis provided in this clause shall be allocated between the properties, other than money, received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. This clause shall not apply to property acquired by a corporation by the issuance of its stock or securities as the consideration, in whole or in part, for the transfer of the property to it;

(6) If the property was received by a corporation upon a distribution in complete liquidation of another corporation within the meaning of section 290.13, subdivision 1, clause (6), then the basis shall be the same as it would be in the hands of the transferor;

(7) If substantially identical property was acquired in the place of stocks or securities which were sold or disposed of and in respect of which loss was not allowed as a deduction under section 290.09, clause (4), the basis in the case of property so acquired shall be the same as in the case of the stock or securities so sold or disposed of, increased by the excess of the repurchase price of such property over the sale price of such stock or securities, or decreased by the excess of the sale price of such stock or securities over the repurchase price of such property;

(8) If a taxpayer has received a stock dividend in respect to any stock, the amount that would be the loss or gain basis in disposing of the stock in respect of which such stock dividend was received shall be ratably apportioned over such stock and the stock received as a dividend, and the basis thus arrived at for the original and the dividend stock shall be the basis, respectively, when the original stock or dividend stock is sold or otherwise disposed of;

(9) If the property was acquired after December 31, 1932, by a corporation in connection with a reorganization,

then the basis shall be the same at it would be in the hands of the transferor, increased in the amount of gain or decreased in the amount of loss recognized to the transferor upon such transfer under the law applicable to the year in which the transfer was made. This clause shall not apply if the property acquired consists of stock or securities in a corporation a party to the reorganization, unless acquired by the issuance of stock or securities of the transferee as the consideration, in whole or in part, for the transfer;

(10) If the property was acquired after December 31, 1932, by a corporation

(a) By the issuance of its stock or securities in connection with a transaction described in section 290.13, subdivision 1, clause (5), including also cases where part of the consideration for the transfer of such property to the corporation was property or money, in addition to such stock or securities; or

(b) As paid-in surplus or as a contribution to capital; then the basis shall be the same as it would be in the hands of the transferor, increased in the amount of gain or decreased in the amount of loss recognized to the transferor upon such transfer under the law applicable to the year in which the transfer was made;

(11) If the property was acquired after December 31, 1932, as the result of a compulsory or involuntary conversion described in section 290.13, subdivision 5, 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.

(12) Neither the basis nor the adjusted basis of any portion of real property shall, in the case of a lessor of such property, be increased or diminished on account of income derived by the lessor in respect of such property and excludible from gross income under section 290.08, clause (13).

If an amount representing any part of the value of real property attributable to buildings erected or other improvements made by a lessee in respect of such property was included in gross income of the lessor for any taxable year beginning before January 1, 1943, the basis of each portion of such property shall be properly adjusted for the amount so included in gross income.

(13) *Notwithstanding the provisions of clause (10) (b) of this section, if property other than money is acquired by a corporation, after December 31, 1954, as a contribution to capital, and is not contributed by a shareholder as such, then the basis of such property shall be zero; and if money is received by a corporation, after December 31, 1954, as a contribution to capital, and is not contributed by a shareholder as such, then the basis of any property acquired with such money during the 12-month period beginning on the day the contribution is received shall be reduced by the amount of such contribution. The excess (if any) of the amount of such contribution over the amount of the reduction under the preceding sentence shall be applied to the reduction (as of the last day of the period specified in the preceding sentence) of the basis of any other property held by the taxpayer. The particular properties to which the reductions required by this paragraph shall be allocated shall be determined under regulations prescribed by the commissioner.*

Approved March 18, 1955.

CHAPTER 192—H. F. No. 384

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1953, Section 290.09.

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

Section 1. Minnesota Statutes 1953, Section 290.09, is amended to read:

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

(1) Ordinary and necessary expenses paid or incurred in conducting the activity or in carrying on the trade, profession, gainful occupation or business from which the gross income is derived, including a reasonable allowance for salaries and voluntary or compulsory contributions made by employers to maintain a voluntary or compulsory system of unemployment insurance or a system of old age pensions for their employees, and any welfare work for the benefit of such employee;

(2) The interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities the income from which is excludible from gross income under section