

of all items of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under methods of accounting permitted under subdivision 2, such amounts are to be properly accounted for as of a different period. In the case of the death of a taxpayer whose net income is computed upon the basis of the accrual method of accounting, amounts (except amounts includible in computing a partner's net income under Section 290.31) accrued only by reason of the death of the taxpayer, shall not be included in computing net income for the period in which falls the date of the taxpayer's death.

Subd. 7. **Deductions, credits; time for taking.** The deductions and credits provided for in this chapter shall be taken for a taxable year in which "paid or accrued" or "paid and incurred," dependent upon the method of accounting upon the basis of which the net income is computed, unless in order to clearly reflect the income the deductions or credits should be taken as of a different period. In the case of the death of a taxpayer whose net income is computed upon the basis of the accrual method of accounting, amounts (except amounts includible in computing a partner's net income under section 290.31) accrued as deductions and credits only by reason of the death of the taxpayer shall not be allowed in computing net income for the period in which falls the date of the taxpayer's death.

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

Approved April 14, 1955.

CHAPTER 427—H. F. No. 420

An act relating to taxes and measured by net income; amending Minnesota Statutes 1953, Section 290.13, Subdivision 5.

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

Section 1. Minnesota Statutes 1953, Section 290.13, Subdivision 5, is amended to read:

Subd. 5. **Conversion of property, loss.** *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.*

(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 of law 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, 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) of this subdivision, 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) of this subdivision 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.

Approved April 14, 1955.

CHAPTER 428—H. F. No. 519

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 Gross income, deductions. 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;