make its report to the governor and the next legislature between November 15, 1958, and January 15, 1959.

Sec. 4. **Meetings.** For the accomplishment of its purpose the commission may hold meetings at such time and places as may be convenient for the purpose of receiving evidence and the commission may issue subpoenas in the manner provided by its rules.

Sec. 5. **Expenses.** Members of the commission shall serve without pay but they shall be allowed and paid for their actual and necessary expenses incurred by them in their performance of duty. The legislative research commission shall extend to all practicable assistance. It shall have the authority to employ legal counsel, a secretary and other expert, professional, and clerical assistance as it may deem necessary to pay therefor; it may purchase stationery and other supplies, and it may do all things reasonably necessary and convenient to carry out the purpose of this act.

Sec. 6. **Appropriation.** There is hereby appropriated out of any money in the state treasury not otherwise appropriated the sum of $15,000 or so much thereof as may be necessary to pay the expenses incurred by the commission. For the payment of such expenses the commission shall draw its warrants upon the state treasurer, which warrants shall be signed by the chairman or such other member as the rules of the commission may provide, and the state auditor shall then approve and the state treasurer pay such warrants as and when presented.

Approved April 29, 1957.

CHAPTER 889—H. F. No. 1332

An act relating to taxes on and measured by net income, amending Minnesota Statutes 1953, Section 290.08, as amended.

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

Section 1. Minnesota Statutes 1953, Section 290.08, as amended by Laws 1955, Chapter 27, is amended to read:

290.08 **Exemptions from gross income.** *Subdivision 1.* The following items shall not be included in gross income:

Subd. 2. The value of property acquired by gift, devise, bequest or inheritance, but the income from such property shall be included in gross income; the income received under a gift, devise, bequest or inheritance of a right to receive income shall also be included in gross income. Amounts paid, credited, or to be distributed at intervals, under the terms of the gift, devise or inheritance, shall be included in gross income of the recipient to the extent paid, credited, or to be distributed out of income;

Subd. 3. (a) Proceeds of Life Insurance Contracts Payable by Reason of Death.—

(1) General Rule.—Except as otherwise provided in paragraph (2) and in subsection (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 no t 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 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).

(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 employe had lived).

(D) Other annuities.—In the case of any amount to which subd. 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 Subd. 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 subd. 15 (relating to alimony) or section 290.072 (relating to income of an estate or trust in case of divorce, etc.)

Subd. 4. (a) Except as otherwise provided in this chapter, gross income includes any amount received as an annuity (whether for a period certain or during one or more lives) under an annuity, endowment, or life insurance contract.

(b) Gross income does not include that part of any

amount received as an annuity, under an annuity, endowment, or life insurance contract which bears the same ratio to such amount as the investment in the contract (as of the annuity starting date) bears to the expected return under the contract (as of such date). This paragraph shall not apply to any amount to which paragraph (d) (i) (relating to certain employee annuities) applies.

(c) (i) For purposes of paragraph (b), the investment in the contract as of the annuity starting date is

(A) the aggregate amount of premiums or other consideration paid for the contract, minus

(B) the aggregate amount received under the contract before such date, to the extent that such amount was excludable from gross income under this chapter or prior Minnesota income tax laws.

(ii) If

(A) the expected return under the contract depends in whole or in part on the life expectancy of one or more individuals:

(B) the contract provides for payments to be made to a beneficiary (or to the estate of an annuitant) on or after the death of the annuitant or annuitants; and

(C) such payments are in the nature of a refund of the consideration paid.

then the value (computed without discount for interest) of such payments on the annuity starting date shall be subtracted from the amount determined under subparagraph (i). Such value shall be computed in accordance with acturial tables prescribed by the commissioner. For purposes of this subparagraph and of paragraph (e) (ii) (A), the term "refund of the consideration paid" includes amounts payable after the death of an annuitant by reason of a provision in the contract for a life annuity with minimum period of payments certain, but (if part of the consideration was contributed by an employer) does not include that part of any payment to a beneficiary (or to the estate of the annuitant) which is not attributable to the consideration paid by the employee for the contract as determined under subparagraph (i) (A).

(iii) For purposes of paragraph (b), the expected return under the contract shall be determined as follows:

(A) If the expected return under the contract, for the period on and after the annuity starting date, depends in whole

or in part on the life expectancy of one or more individuals, the expected return shall be computed with reference to acturial tables prescribed by the commissioner.

(B) If (A) does not apply, the expected return is the aggregate of the amounts receivable under the contract as an annuity.

(iv) For purposes of this clause (3), the annuity starting date in the case of any contract is the first day of the first period for which an amount is received as an annuity under the contract; except that if such date was before January 1, 1956, then the annuity starting date is January 1, 1956.

(d) (i) Where

(A) part of the consideration for an annuity, endowment, or life insurance contract is contributed by the employer, and

(B) during the 3-year period beginning on the date (whether or not before January 1, 1956) on which an amount is first received under the contract as an annuity, the aggregate amount receivable by the employee under the terms of the contract is equal to or greater than the consideration for the contract conributed by the employee.

then all amounts received as an annuity under the contract shall be excluded from gross income until there has been so excluded (under this subparagraph and prior Minnesota income tax laws) an amount equal to the consideration for the contract contributed by the employee. Thereafter all amounts so received under the contract shall be included in gross income.

(ii) For purposes of subparagraph (i), if the employee died before any amount was received as an annuity under the contract, the words "receivable by the employee" shall be read as "receivable by a beneficiary of the employee".

(e) (i) If any amount is received under an annuity, endowment, or life insurance contracts, if such amount is not received as an annuity, and if no other provision of this chapter applies, then such amount

(A) if received on or after the annuity starting date, shall be included in gross income; or

(B) if (A) does not apply, shall be included in gross income, but only to the extent that it (when added to amounts previously received under the contract which were excludable from gross income under this chapter or prior Minnesota

income tax laws) exceeds the aggregate premiums or other consideration paid.

For purposes of this clause (3), any amount received which is in the nature of a dividend or similar distribution shall be treated as an amount not received as an annuity.

(ii) For purposes of subparagraph (i), the following shall be treated as amounts not received as an annuity:

(A) any amount received, whether in a single sum or otherwise, under a contract in full discharge of the obligation under the contract which is in the nature of a refund of the consideration paid for the contract; and

(B) any amount received under a contract on its surrender, redemption or maturity.

In the case of any amount to which the preceding sentence applies, the rule of subparagraph (i) (B) shall apply (and the rule of subparagraph (i) (A) shall not apply).

(iii) If a lump sum is received under an annuity, endowment, or life insurance contract, and the part which is includible in gross income is determined under subparagraph (i), then the tax attributable to the inclusion of such part in gross income for the taxable year shall not be greater than the aggregate of the taxes attributable to such part had it been included in the gross income of the taxpayer ratably over the taxable year in which received and the preceding two taxable years.

(f) In computing, for purposes of paragraph (c) (i) (A), the aggregate amount of premiums or other consideration paid for the contract, for purposes of paragraph (d) (i), the consideration for the contract contributed by the employee, and for purposes of paragraph (e) (i) (B), the aggregate premiums or other consideration paid, amounts contributed by the employer shall be included, but only to the extent that

(i) such amounts were includible in the gross income of the employee under this chapter or prior Minnesota income tax laws; or

(ii) if such amount had been paid directly to the employee at the time they were contributed, they would not have been includible in the gross income of the employee under the law applicable at the time of such contribution.

(g) Where any contract (or any interest therein) is transferred (by assignment or otherwise) for a valuable consideration, to the extent that the contract (or interest therein)

does not, in the hands of the transferee, have a basis which is determined by reference to the basis in the hands of the transferor, then

(i) for purposes of this clause (3), only the actual value of such consideration, plus the amount of the premiums and other consideration paid by the transferee after the transfer, shall be taken into account in computing the aggregate amount of the premiums or other consideration paid for the contract:

(ii) for purposes of paragraph (c) (i) (B), there shall be taken into account only the aggregate amount received under the contract by the transferee before the annuity starting date, to the extent that such amount was excludable from gross income under this chapter or prior Minnesota income tax laws; and

(iii) the annuity starting date is January 1, 1956, or the first day of the first period for which the transferee received an amount under the contract as an anuity, whichever is the later.

For purposes of this paragraph, the term "transferee" includes a beneficiary of, or the estate of, the transferee.

(h) If

(i) a contract provides for payment of a lump sum in full discharge of an obligation under the contract, subject to an option to receive an annuity in lieu of such lump sum;

(ii) the option is exercised within 60 days after the day on which such lump sum first became payable; and

(iii) part or all of such lump sum would (but for this paragraph) be includible in gross income by reason of paragraph (e) (i),

then, for purposes of this chapter, no part of such lump sum shall be considered as includible in gross income at the time such lump sum first became payable.

Notwithstanding any other provision of this clause (3), if any amount is held under an agreement to pay interest thereon, the interest payments shall be included in gross income.

This clause (3) shall not apply to so much of any payment under an annuity, endowment, or life insurance contract (or any interest therein) as is includible in the gross income of the wife under section 290.072 or section 290.28, subdivision 3 (relating to income of an estate or trust in case of divorce, etc.)

Subd. 5(a) Amounts received as compensation for personal injuries or sickness by the injured or sick taxpayer, whether received under accident or health insurance contracts, workmen's compensation acts, any plan maintained by employers for such purpose, or by way of damages received in any suit or by agreement; *provided, that any such amounts received as wages or payments in lieu of wages for a period during which the employe is absent from work on account of personal injuries or sickness shall be excluded from gross income to the extent that such amounts do not exceed a weekly rate of $100. In the case of a period during which the employee is absent from work on account of sickness, the preceding clause shall not apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of sickness for at least one day during such period. If such amounts are not paid on the basis of a weekly pay period, the Commissioner shall by regulation prescribe the method of determining the weekly rate of which such amounts are paid.*

(b) Amounts received as compensation for the death of any member of the taxpayer's family, whether received under insurance contracts, workmen's compensation acts, any plan maintained by employers for such purposes, or by way of damages received in a suit or by agreement; and amounts received under any arrangement entered into by the taxpayer to provide a fund specifically intended to defray the funeral expenses of himself or any member of his family. The words "compensation" and "damages," as used in this clause, shall include reimbursement for medical, hospital, and funeral expenses in connection with such sickness, injury, or debt;

Subd. 6. Amounts, including interest, received by any person from the United States or from the State of Minnesota or any of its political or governmental subdivisions, either as a refund of contributions to, or by way of payment as a pension, public employee retirement benefit, unemployment compensation benefit, social security benefit or railroad retirement or unemployment compensation benefit, family allotment, or other similar allowance;

Subd. 7. Interest upon obligations of the State of Minnoesta, any of its political or governmental subdivisions, any of its municipalities, or any of its governmental agencies or instrumentalities;

Subd. 8. Interest upon obligations of the United States, its possessions, its agencies, or its instrumentalities, so far as immune from state taxation under federal law; provided, that salaries, wages, fees, commissions or other compensation received from the United States, its possessions, its agencies, or its instrumentalities shall be excluded from gross income for all taxable years ending prior to January, 1939; provided, that salaries, wages, fees, commissions, or other compensation received from the United States, its possessions, its agencies, or its instrumentalities for taxable years ending prior to January 1, 1939, shall be excluded only to the extent that salaries, wages, commissions, fees and other compensation received from the State of Minnesota, its political or governmental subdivisions, its municipalities, or its governmental agencies or instrumentalities for that year are excluded from gross income under the federal revenue acts; provided, that salaries, wages, fees, commissions, or other compensation received from the United States, its possessions, its agencies, or its instrumentalities by federal employees residing in "federal areas" shall be excluded from gross income for all taxable years ending prior to January 1, 1941;

Subd. 9. The rental value of the premises occupied by the taxpayer as his home, or for his business, except where the occupancy by such taxpayer of such premises for such purposes constitutes in whole or in part the consideration received by him in connection with a transaction such that, had such consideration been received thereunder in cash or other property, the amount thereof would have been required, either in whole or in part, to be included in his gross income;

Subd. 10. The value of food and goods produced by the taxpayer and consumed or used by his immediate family;

Subd. 11. Amounts deducted from the wages or salaries of employees by employers under a voluntary or compulsory plan of unemployment insurance shall not be included in the gross income of such employees;

Subd. 12. The amounts distributed by cooperative buying, selling or producing associations, however organized, as patronage dividends shall not be included in the gross income of such associations;

Subd. 13. Clauses (4), (5), (10), and (11) shall not apply to corporations and clauses (7) and (8) shall not apply to corporations taxable under section 290.02 or under section 290.361.

Subd. 14. Income, other than rent, derived by a lessor of real property upon the termination of a lease, representing the value of such property attributable to buildings erected or other improvements made by a lessee;

Subd. 15. The rental value of a home furnished to a minister of the gospel as part of his compensation; or the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home.

Subd. 16. Amounts received during the taxable year as mustering-out payments with respect to service in the military or naval forces of the United States or the United Nations.

Subd. 17. The value of any meals are furnished to an employee by his employer for the convenience of the employer, but only if—

(a) in the case of meals, the meals are furnished on the business premises of the employer, or

(b) in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment.

In determining whether meals or lodging are furnished for the convenience of the employer, the provisions of an employment contract or of a Minnesota Statute or rule or regulation promulgated thereunder fixing terms of employment shall not be detereminative of whether the meals or lodging are intended as compensation.

Subd. 18. (a) In the case of an individual, (1) any amount received as a scholarship at an educational institution (as defined in paragraph (d) of this clause), or as a fellowship grant, including the value of contributed services and accommodations; and (2) any amount received to cover expenses for travel, research, clerical help, or equipment, which are incident to such a scholarship or to a fellowship grant, but only to the extent that the amount is so expended by the recipient.

(b) In the case of an individual who is a candidate for a degree at an educational institution the provisions of paragraph (a) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services in the nature of part-time employment required as a condition to receiving the scholarship or the fellowship grant. If teaching, research, or other services are required of all candidates (whether or not recipients of scholarships or fellowship grants) for a particular degree as a condition to receiving such degree, such degree, such teaching, research, or other services shall not be regarded as part-time employment within the meaning of this paragraph.

(c) In the case of an individual who is not a candidate for a degree at an educational institution (as defined in paragraph (d) of this clause), paragraph (a) shall apply only if the condition in the next succeeding sentence is satisfied and then only within the limitations provided in the last sentence of this paragraph. The grantor of the scholarship or fellowship grant must be an organization which is exempt from tax under section 290.05 (9), the United States, or an instrumentality or agency thereof, or a State, a Territory, or a possession of the United States, or any political subdivision thereof, or the District of Columbia.

The amount of the scholarship or fellowship grant excluded under paragraph (a) (1) in any taxable year shall be limited to an amount equal to $300 times the number of months for which the recipient received amounts under the scholarship or fellowship grant during such taxable year, except that no exclusion shall be allowed under paragraph (a) after the recipient has been entitled to exclude under this section for a period of 36 months (whether or not consecutive) amounts received as a scholarship or fellowship grant while not a candidate for a degree at an educational institution.

(d) For purposes of this clause, the term "educational institution" means only an educational institution which normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

Subd. 19. In the case of a corporation, gross income does not include any contribution to the capital of the taxpayer.

Subd. 20. 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 regulation 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 unamortized 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 deduction 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.

Sec. 2. *The provisions of this chapter are applicable to all taxable years beginning after December 31, 1956.*

Approved April 29, 1957.

CHAPTER 890—H. F. No. 1429

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1953, Section 290.53, Subdivision 4, as amended.

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

Section 1. Minnesota Statutes 1953, Section 290.53, Subdivision 4, as amended by Laws 1955, Chapter 766, is amended to read:

Subd. 4. **Failure to file, filing false or fraudulent returns; intent to evade tax; criminal provisions.** In addition to the penalties hereinbefore prescribed, (a) Any person required by this act to make a return, who *knowingly* fails to make such a return at the time required by law, shall be guilty of a misdemeanor; (b) Any person who wilfully makes and subscribes any return, statement, or other document, which contains or is verified by a written declaration that it is made under the penalties of perjury, and which he