

## CHAPTER 737—H.F.No.805

[Coded in Part]

*An act relating to taxes on and measured by net income; limiting the deductions attributable to farming; amending Minnesota Statutes 1971, Sections 290.01, Subdivision 20; and 290.09, by adding a subdivision.*

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

Section 1. Minnesota Statutes 1971, Section 290.01, Subdivision 20, is amended to read:

Subd. 20. **TAXATION; INCOME TAX; FARMING; DEDUCTIONS; GROSS INCOME.** Except as otherwise provided in this chapter, the term "gross income," as applied to corporations includes every kind of compensation for labor or personal services of every kind from any private or public employment, office, position or services; income derived from the ownership or use of property; gains or profits derived from every kind of disposition of, or every kind of dealing in, property; income derived from the transaction of any trade or business; and income derived from any source.

For each of the taxable years beginning after December 31, 1960 and ending prior to January 1, 1971, the term "gross income" in its application to individuals, estates, and trusts, shall mean the adjusted gross income as computed for federal income tax purposes as defined in the Internal Revenue Code of 1954, as amended through December 31, 1970 for the applicable taxable year, with the modifications specified in this section.

(a) Modifications increasing federal adjusted gross income. There shall be added to federal adjusted gross income:

(1) Interest income on obligations of any state other than Minnesota or a political subdivision of any such other state exempt from federal income taxes under the Internal Revenue Code of 1954, as amended through December 31, 1970;

(2) Interest income on obligations of any authority, commission, or instrumentality of the United States, which the laws of the United States exempt from federal income tax, but not from state income taxes;

(3) Income taxes imposed by this state or any other taxing jurisdiction, to the extent deductible in determining federal adjusted gross income and not credited against federal income tax;

(4) Interest on indebtedness incurred or continued to purchase or carry securities the income from which is exempt from tax

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under chapter 290, to the extent deductible in determining federal adjusted gross income;

(5) Amounts received as reimbursement for an expense of sickness or injury which was deducted in a prior taxable year to the extent that the deduction for such reimbursed expenditure resulted in a tax benefit;

(6) Losses which do not arise from events or transactions which are assignable to Minnesota under the provisions of sections 290.17 to 290.20, including any capital loss or net operating loss carryforwards or carrybacks resulting from such losses, and including any such nonassignable losses which occur prior to the time the individual becomes a resident of the state of Minnesota;

(7) The amount of any federal income tax overpayment for any previous taxable year, received as refund or credited to another taxable year's income tax liability, proportionate to the percentage of federal income tax that was claimed as a deduction in determining Minnesota income tax for such previous taxable year.

The overpayment refund or credit, determined with respect to a husband and wife on a joint federal income tax return for a previous taxable year, shall be reported on joint or separate Minnesota income tax returns. In the case of separate Minnesota returns, the overpayment shall be reported by each spouse proportionately according to the relative amounts of federal income tax claimed as a deduction on his or her separate Minnesota income tax return for such previous taxable year; and

(8) In the case of a move from Minnesota to another state or nation, the amount of moving expenses which exceed total reimbursements and which were therefore deducted in arriving at federal adjusted gross income.

(9) Expenses and losses arising from a farm which are not allowable under section 2 of this act.

(b) Modifications reducing federal adjusted gross income. There shall be subtracted from federal adjusted gross income:

(1) Interest income on obligations of any authority, commission or instrumentality of the United States to the extent includible in gross income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) The portion of any gain, from the sale or other disposition of property having a higher adjusted basis for Minnesota income tax purposes than for federal income tax purposes, that does not exceed such difference in basis; but if such gain is considered a long-term capital gain for federal income tax purposes, the modifi-

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ation shall be limited to fifty per centum of such portion of the gain;

(3) Interest or dividend income on securities to the extent exempt from income tax under the laws of this state authorizing the issuance of such securities but includible in gross income for federal income tax purposes;

(4) Income which does not arise from events or transactions which are assignable to Minnesota under the provisions of sections 290.17 to 290.20;

(5) Losses, not otherwise reducing federal adjusted gross income assignable to Minnesota, arising from events or transactions which are assignable to Minnesota under the provisions of sections 290.17 to 290.20, including any capital loss or net operating loss carryforwards or carrybacks resulting from such losses;

(6) If included in federal adjusted gross income, the amount of any overpayment of income tax to Minnesota, or any other state, for any previous taxable year, whether such amount is received as a refund or credited to another taxable year's income tax liability;

(7) The amount of any pension or benefit received from the United States or from the state of Minnesota, or any of its subdivisions, which is excluded from gross income under the provisions of section 290.08, subdivision 6; and

(8) The amount of compensation for personal services in the armed forces of the United States or the United Nations which is excluded from gross income under the provisions of section 290.65.

(c) Modifications affecting shareholders of electing small business corporations under section 1372 of the Internal Revenue Code of 1954, as amended through December 31, 1970 or section 290.972 of this chapter.

(1) Shareholders in a small business corporation, which has elected to be so taxed under the Internal Revenue Code of 1954, as amended through December 31, 1970 but has not made an election under section 290.972 of this chapter, shall deduct from federal adjusted gross income the amount of any imputed income from such corporation and shall add to federal adjusted gross income the amount of any loss claimed as a result of such stock ownership. Also there shall be added to federal adjusted gross income the amount of any distributions in cash or property made by said corporation to its shareholders during the taxable year.

(2) In cases where the small business corporation has made an election under section 1372 of the Internal Revenue Code of 1954, as amended through December 31, 1970 but has not elected under

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section 290.972 of this chapter and said corporation is liquidated or the individual shareholder disposes of his stock and there is no capital loss reflected in federal adjusted gross income because of the fact that corporate losses have exhausted the shareholders basis for federal purposes, such shareholders shall be entitled, nevertheless, to a capital loss commensurate to their Minnesota basis for the stock.

(3) In cases where the election under section 1372 of the Internal Revenue Code of 1954, as amended through December 31, 1970 antedates the election under section 290.972 of this chapter and at the close of the taxable year immediately preceding the effective election under section 290.972 the corporation has a reserve of undistributed taxable income previously taxed to shareholders under the provisions of the Internal Revenue Code of 1954, as amended through December 31, 1970, in the event and to the extent that such reserve is distributed to shareholders such distribution shall be taxed as a dividend for purposes of this act.

Items of gross income includible within these definitions shall be deemed such regardless of the form in which received. Items of gross income shall be included in gross income of the taxable year in which received by a taxpayer unless properly to be accounted for as of a different taxable year under methods of accounting permitted by section 290.07, except that (1) amounts transferred from a reserve or other account, if in effect transfers to surplus, shall, to the extent that such amounts were accumulated through deductions from gross income or entered into the computation of taxable net income during any taxable year, be treated as gross income for the year in which the transfer occurs, but only to the extent that such amounts resulted in a reduction of the tax imposed by this act, and (2) amounts received as refunds on account of taxes deducted from gross income during any taxable year shall be treated as gross income for the year in which actually received, but only to the extent that such amounts resulted in a reduction of the tax imposed by this act. If a husband and wife have filed a joint federal income tax return and separate Minnesota income tax returns for the same taxable period, amounts received as refunds on account of federal income taxes paid shall be included in gross income in the same ratio as the deductions for federal income taxes were claimed in the separate Minnesota tax returns.

(d) Modification in computing taxable income of the estate of a decedent. Amounts allowable under section 291.07, subdivision 1(2) in computing Minnesota inheritance tax liability shall not be allowed as a deduction in computing the taxable income of the estate unless there is filed within the time and in the manner and form prescribed by the commissioner a statement that the amounts have not been allowed as a deduction under section 291.07 and a waiver of the right to have such amounts allowed at any time as

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deductions under section 291.07. The provisions of this paragraph shall not apply with respect to deductions allowed under section 290.077 (relating to income in respect of decedents). In the event that the election made for federal tax purposes under section 642(g) of the Internal Revenue Code of 1954, as amended through December 31, 1970 differs from the election made under this paragraph appropriate modification of the estate's federal taxable income shall be made to implement the election made under this paragraph in accordance with regulations prescribed by the commissioner.

Sec. 2. Minnesota Statutes 1971, Section 290.09, is amended by adding a subdivision to read:

**Subd. 29. DEDUCTIONS ATTRIBUTABLE TO FARMING.**

(a) **DEFINITION.** For purposes of this act, income and gains and expenses and losses shall be considered as "arising from a farm" if such items are received or incurred in connection with cultivating the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife, and all operations incident thereto, including but not limited to the common use of "hedging".

(b) **DEDUCTIONS LIMITED.** Except as provided in this act, expenses and losses, except for interest and taxes, arising from a farm shall not be allowed as deductions in excess of income and gains arising from a farm.

(c) **DEDUCTIONS ALLOWED; CARRYOVER DEDUCTIONS.** Expenses and losses arising from a farm or farms shall be allowed as deductions up to the amount of the income and gains arising from a farm or farms in any taxable year, plus the amount of non-farm gross income, or taxable net income in the case of a corporation, not to exceed the amount of \$10,000 reduced by the amount by which such non-farm income exceeds the amount of \$10,000. Any remaining balance of such deductions shall be carried back three years and carried forward five years, in chronological order.

Current expenses and losses shall be utilized as deductions in any taxable year, to the extent herein allowable, prior to the application of any carryback or carryover deductions. In any event, the combined amounts of such current expenses and losses and carryback or carryover deductions shall be allowed as deductions up to the amount of the income and gains arising from a farm or farms in any taxable year, plus the amount of non-farm gross income, or taxable net income in the case of a corporation, not to exceed the amount of \$10,000 reduced by the amount by which such non-farm income exceeds the amount of \$10,000.

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(d) For purposes of this act individual shareholders of an electing small business corporation shall be considered separate entities.

Sec. 3. **EFFECTIVE DATE.** The provisions of this act shall be applicable to taxable years beginning on or after January 1, 1974.

Approved May 24, 1973.

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CHAPTER 738—H.F.No.877

[Coded]

*An act relating to education; interscholastic athletics and other extracurricular activities; amending Minnesota Statutes 1971, Chapter 129 by adding a section; repealing Minnesota Statutes 1971, Section 129.12.*

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

Section 1. Minnesota Statutes 1971, Chapter 129, is amended by adding a section to read:

**[129.121] EDUCATION; MINNESOTA STATE HIGH SCHOOL LEAGUE.** The governing board of any high school may delegate the control, supervision and regulation of interscholastic athletics and other extracurricular activities referred to in Minnesota Statutes, Sections 123.17 and 123.38 to the Minnesota state high school league, a nonprofit incorporated voluntary association. Membership in said Minnesota state high school league shall be composed of such Minnesota high schools whose governing boards have certified in writing to the state commissioner of education that they have elected to delegate the control, supervision and regulation of their interscholastic athletic events and other extracurricular activities to said league. The Minnesota state high school league is hereby empowered to exercise the control, supervision and regulation of interscholastic athletics, musical, dramatic and other contests by and between pupils of the Minnesota high schools, delegated to it pursuant to this section. The Minnesota high school league may establish a policy or guidelines for the guidance of member high schools in the voluntary formation or alteration of athletic or other extracurricular conferences. The commissioner of education, or his representative, shall be an ex officio member of the governing body of such league, with the same rights and privileges as other members of its governing body.

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