the state of incorporation or eight per cent per annum, which ever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the corporation, upon dissolution or otherwise, beyond the fixed dividends) is owned by such association, or members thereof; nor shall exemption be denied any such corporation because there is accumulated and maintained by it a reserve required by state law or a reasonable reserve for any necessary purpose;

(15) Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this chapter;

(16) Voluntary employees' beneficiary assosiations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents if no part of their net earnings inures (other than through such payments) to the benefit of any private shareholder or individual.

Sec. 2. *The provisions of this chapter are applicable to all taxable years beginning after December 31, 1952.*

Approved April 23, 1953.

CHAPTER 648—H. F. No. 313

An act relating to taxes on and measured by net income; amending Minnesota Statutes 1949, Section 290.01, Subdivision 21.

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

Section 1. Minnesota Statutes 1949, Section 290.01, Subdivision 21, is amended to read:

Subd. 21. **Dividends.** (1) The term "dividends" means any distribution made by a corporation to its shareholders, whether in money or in other property, (a) out of its earnings or profits accumulated after December 31, 1932, or (b) out of the earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year), without regard to the amount of the earnings and profits at the time the distribution was made. Dividends paid in property other than cash shall be included in the recipient's income at the fair market value of such property on the date the action ordering their distribution was taken, or if no such action was taken, on the date of the actual payment or credit thereof to the shareholder.

(2) For the purposes of this section every distribution is presumed to be made out of earnings or profits to the extent thereof, and from the most recently accumulated earnings or profits. Any earnings or profits accumulated, or increase in value of tangible property with situs in Minnesota, accrued, before January 1, 1933, may be distributed exempt from tax, after the earnings and profits accumulated after December 31, 1932, have been distributed, but any such tax-free distribution shall be applied against and reduce the cost or other income tax basis of the stock with respect to which such distribution is made. If such or any similar tax-free distributions exceed such cost or other income tax basis, any excess shall be treated in the same manner as a gain from the sale or exchange of property for the taxable year in which received by the distributee.

(3) *A distribution made by a corporation to its shareholders in its stock or in rights to acquire its stock shall not be treated as a dividend to the extent that it does not constitute income to the shareholder within the meaning of the Sixteenth Amendment to the Constitution of the United States. Whenever a distribution by a corporation is, at the election of any of the shareholders (whether exercised before or after the declaration thereof), payable either (a) in its stock or in rights to acquire its stock or (b) in money or any other property (including its stock or rights to acquire its stock) then the distribution shall constitute a taxable dividend in the hands of all shareholders, regardless of the medium in which paid.* If a corporation cancels or redeems its stock, whether or not such stock was issued as a stock dividend, at such time and in such manner as to make the distribution and cancelation or redemption, in whole or in part, essentially equivalent to the distribution of a taxable dividend, the amount so distributed in cancelation or redemption of the stock shall be treated as a taxable dividend to the extent that it represents a distribution of earnings or profits.

(4) Amounts distributed in liquidation of a corporation shall be treated as payment in exchange for the stock, and the gain or loss to the distributee resulting from such exchange shall be determined under Section 290.12, but shall be recognized only to the extent provided in section 290.13, and shall be taken into account in computing net income only to the extent provided in section 290.16, subdivision 2. No amounts re-

ceived in liquidation shall be taxed as a gain until the distributee shall have received in liquidation an amount in excess of the applicable loss or gain basis of the stock in respect of which the distribution is received, and any such excess shall be taxed as gain in the year in which received. No amount received in liquidation shall be treated as the distribution of an ordinary dividend.

(5) Amounts distributed by a regulated investment company, as that term is defined and limited by Section 361 (a) and (b) of the Internal Revenue Code of the United States, which are designated as capital gain dividends, as that term is defined in Section 362 (b) (7) of the Internal Revenue Code of the United States, shall be treated by the shareholders of such a company as gains from the sale or exchange of capital assets held for more than six months and shall be taken into account in computing net income only to the extent provided in Section 290.16, Subdivision 2.

Sec. 2. *The provisions of this chapter are applicable to all taxable years beginning after December 31, 1952.*

Approved April 23, 1953.

CHAPTER 649—H. F. No. 353

An act relating to inheritance and transfer taxes; amending Minnesota Statutes 1949, Section 291.33.

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

Section 1. Minnesota Statutes 1949, Section 291.33, is amended to read:

291.33 **Payments to counties.** On or before the first of November in each year the commissioner of taxation shall determine the amount of inheritance *and interest collected thereon* which has been paid in to the commissioner of taxation by the county treasurers of the several counties of this state, from estates of residents during the preceding fiscal year ending June 30, and the amount returned under the provisions of Minnesota Statutes 1941, Section 291.32, as amended, which was originally paid to the county treasurer, and shall cause to be paid to each county from which any tax shall have been received during the fiscal year ending June 30 next preceding, 20 percent of the amount of the inheritance tax money *and interest collected thereon* so received from each such county respectively, less 20 per cent of any *such* tax *and interest thereon* which has been returned under the provisions of