

HOUSE No. 108

Accompanying the first recommendation of the State Tax Commission (House, No. 107). Taxation.

The Commonwealth of Massachusetts

In the Year One Thousand Nine Hundred and Fifty-Seven.

AN ACT TO CLARIFY THE PERSONAL INCOME TAX LAW WITH RESPECT TO THE COST BASIS OF SECURITIES ON WHICH DISTRIBUTIONS NOT TAXABLE AS DIVIDENDS HAVE BEEN RECEIVED.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows.

1 SECTION 1. Section 5 (c) of chapter 62 of the General
2 Laws, as amended by section 2 of chapter 635 of the acts of
3 1955, is hereby further amended by striking out the fifth
4 sentence of said subsection which reads:— [In the case of a
5 partial liquidation the basis of the stock cancelled or redeemed
6 shall be determined by multiplying the basis of the stock to
7 which such partial liquidation was attributable by a frac-
8 tion whose numerator is the fair market value of all the prop-
9 erty distributed by the corporation, association or trust in
10 such partial liquidation, and whose denominator is the fair
11 market value of the entire stock on which such partial liquida-
12 tion was made immediately before the distribution.] and by
13 inserting in place thereof the following:— *To the extent that*
14 *distributions which are not dividends as defined in section 61*
15 *(b) of this chapter would reduce the cost basis of stock below*
16 *zero, they shall be treated as amounts received on the sale of*
17 *such stock.*

1 SECTION 2. Section 7 of chapter 62 of the General Laws,
2 as amended by section 3 of chapter 635 of the acts of 1955,

3 is hereby further amended by striking out the third paragraph of said section and inserting in place thereof the following:—

6 In the case of intangible personal property:— First, if
7 the property has constituted the basis of a non-taxable
8 stock dividend, the foregoing basis shall be reduced by the
9 amount apportioned as the basis of the new stock acquired
10 in accordance with subsection (g); and second, the fore-
11 going basis shall be reduced by any amounts which do not
12 constitute a dividend as defined in section 61 (b) of this chapter
13 received as a distribution of capital; and third, if any distri-
14 butions have been made in connection with a partial liquida-
15 tion on account of the property, the foregoing basis shall be
16 reduced by either (1) the fair market value of the property
17 received in such partial liquidation plus the loss computed
18 under subsection (c) of section five, or (2) the fair market
19 value of the property received in such partial liquidation
20 minus the gain computed under subsection (c) of said section
21 five, whichever is applicable.

1 SECTION 3. This act shall take effect with respect to tax-
2 able years commencing after December thirty-first, nineteen
3 hundred and fifty-six.