

Income/Franchise:

Kansas: New Law Creates Loan Interest Income Deduction for Some Financial Institutions

S.B. 15, signed by gov. 2/25/21. For taxable years commencing after December 31, 2022, new law permits some national banking associations, state banks, trust companies, and savings and loan associations subject to Kansas' privilege tax to deduct from their "net income" the net interest income received from i) defined qualified agricultural real estate loans, and ii) defined single family residence loans to the extent such interest is included in the Kansas taxable income of a corporation. Under the new law, "qualified agricultural real estate loans" generally mean loans made on real property that is substantially used for the production of one of more agricultural products and that:

URL: http://www.kslegislature.org/li/b2021_22/asures/sb15/

- Have maturities of not less than 5 years and not more than 40 years;
- Are secured by a first lien interest in real estate, except that the loans may be secured by a second lien interest if the institution also holds the first lien on the property; and
- Have an outstanding loan balance when made that is less than 85% of the appraised value of the real estate, except that a loan for which private mortgage insurance is obtained may exceed 85% of the appraised value of the real estate to the extent the loan amount in excess of 85% is covered by such insurance.

A "single family residence" under the new law generally means a residence that:

- Is the principal residence of its occupant;
- Is located in Kansas, in a rural area as defined by the US Department of Agriculture that is not within a metropolitan statistical area and has a population of 2,500 or less as determined by the most recent census for which data is available; and
- Is purchased or improved with the proceeds of the loan.

Net interest income received from such respective qualifying loans attributed to Kansas generally means the product of the ratio of the interest income earned on such respective loans over total interest income earned, in relation to the net income of the national banking association, state bank, trust company or savings and loan association without regard to this deduction. Please contact us with any questions.

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