Policy and Research
109 SW 9th Street
PO Box 3506
Topeka KS 66601-3506
Mark A. Burghart, Secretary

Kansas
Department of Revenue

Phone: 785-368-8222
Fax: 785-296-1279
www.ksrevenue.org
Laura Kelly, Governor

NOTICE 21-18

PRIVILEGE TAX
Deduction for Interest Income from Certain QUALIFIED AGRICULTURAL REAL ESTATE LOANS AND SINGLE FAMILY RESIDENCE LOANS

(JULY 13, 2021)

During the 2021 Legislative Session Senate Bill 15 was passed and signed into law. Section 10 amends K.S.A. 79-1109 to add a new deduction from net income for privilege tax purposes. The deduction will be available for all tax years commencing **after** December 31, 2022.

The new deduction is available to national banking associations, state banks, trust companies, and savings and loan associations, and will be claimed on form K-130. As set forth in new section (c) of the statute, the deduction is for:

> . . . .net interest income received from qualified agricultural real estate loans attributed to Kansas and the net interest income received from single family residence loans attributed to Kansas to the extent such interest is included in the Kansas taxable income of a corporation. . . . .

New subsections (c)(1), (2), (3), (4), and (5) define the terms "interest", "qualified agriculture real estate loans", "single family residence", "net interest income received from qualified agricultural real estate loans attributable to Kansas", and "net interest income received from single family residence loans attributable to Kansas". These subsections provide:

> (1) "Interest" means interest on indebtedness attributed to Kansas and incurred in the ordinary course of the active conduct of any business and interest on indebtedness incurred that is secured by a single family residence;
>
> (2) "qualified agricultural real estate loans" means loans made on real property that is substantially used for the production of one or more agricultural products and that:
>
> (A) Have maturities of not less than five years and not more than 40 years;
>
> (B) 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
>
> (C) 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;

(3) "single family residence" means a residence that:

(A) Is the principal residence of its occupant;

(B) is located in Kansas, in a rural area as defined by the United States 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

(C) is purchased or improved with the proceeds of the loan;

(4) "net interest income received from qualified agricultural real estate loans attributed to Kansas" means the product of the ratio of the interest income earned on qualified agricultural real estate 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; and

(5) "net interest income received from single family residence loans attributed to Kansas" means the product of the ratio of the interest income earned on single family residence 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.

It is important to note this deduction will only affect those taxpayers that are filing Kansas privilege tax returns.

TAXPAYER ASSISTANCE

Additional copies of this notice, forms or publications are available from our web site, www.ksrevenue.org. If you have questions about this Notice, please contact:

Taxpayer Assistance Center
Kansas Department of Revenue
Scott Office Building, 1st Floor
120 SE 10th Ave
P. O. Box 3506
Topeka, KS 66601-3506
Phone: 785-368-8222
Fax: 785-291-3614