

MEMORANDUM

To: Larry Campbell, Director
Director of Budget
From: Kansas Department of Revenue
Date: 02/26/2020
Subject: 2020 Senate Bill 259
Amended by Senate Committee

Brief Of Bill

Senate Bill 259, as amended by Senate Committee, relates to the field of membership for credit unions and provides a deduction from net income for net interest received from certain business and single family residence loans for banks, trust companies, and savings and loan associations for tax year 2020 and later.

Section 1 of the amended version of the bill amends K.S.A. 2019 Supp. 17-2205 to change the field of membership for credit unions.

Section 2 amends K.S.A. 79-1109 to allow a deduction from net income for the net interest income received from business 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

Definitions of terms used in this bill is given as follows:

- (1) "Interest" means interest on indebtedness incurred in the ordinary course of the active conduct of any business and interest on indebtedness attributed to Kansas and incurred that is secured by a single family residence;
- (2) "business" means any entity operated primarily for commercial or agricultural purposes and is not an individual obtaining a loan primarily for personal, family or household purposes;
- (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 business loans attributed to Kansas" means the product of the ratio of the interest income earned on business 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 as defined herein 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.

This bill would take effect and be in force from and after its publication in the statute book.

Fiscal Impact

Allowing K130 taxpayers an income deduction for their certain interest income would decrease SGF privilege tax collections for Fiscal year 2021 and later.

The data provided by Kansas Banking Association indicates that there are 223 Kansas chartered banks. The percent of commercial loan interest income to the total interest income for those banks was 15.49%. The Consensus Revenue Estimates for FY 2021 privilege tax collections is \$43 million.

Applying the ratio to the privilege tax collections, the annual fiscal impact on SGF revenues would be negative \$6.7 million.

SB259 Fiscal Impact

(Dollars in Millions)

FY21	FY22	FY23
-\$10.0	-\$6.7	-\$6.7

Note: The FY21 fiscal impact includes a full-year impact from tax year 2020 tax liability and a partial impact from tax year 2021 tax liability.

The department made the following assumptions:

- (1) The impact from a deduction for net interest income received from single family residence loans is negligible.
- (2) There are 50 out-of-state chartered banks doing business in Kansas. The department assumed the share of commercial loan interest income (attributed to Kansas) for these banks is also 15.49%.
- (3) FY2022 -2023 privilege tax collections are \$43 million.

Administrative Impact

Total Administrative Impact would be \$45,251.

A detailed breakdown of the impact is given below.

Administrative Cost - \$526

Changes to K-130 & K-131 forms and/or instructions, add an additional line.

Updates to Channel and ATP.

Create new adjustment letter for K-130. (Cost to create \$460.32)

Adding Paragraph/Reason Codes. (Cost \$65.76)

Changes to GUI's.

Testing Impact - \$19,725 (600 hrs)

IT Impact - \$25,000 (500 hrs)

-System Development: ATP (280 hrs), Channel (120 hrs)

-Project Management (100 hrs)

Administrative Problems and Comments

Taxpayer/Customer Impact

Legal Impact

Secretary of Revenue